HOUSING-RELATED AGENCY BUDGETS FOR FISCAL YEAR 2004

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HOUSING-RELATED AGENCY BUDGETS FOR FISCAL YEAR 2004

Wednesday, March 5, 2003

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to call, at 10:10 a.m., in Room 2128, Rayburn House Office Building, Hon. Michael G. Oxley [chairman of the committee] presiding.

Present: Representatives Oxley, Leach, Ney, Kelly, Shays, Miller of California, Capito, Feeney, Hensarling, Barrett, Harris, Renzi, Frank, Waters, Sanders, Maloney, Gutierrez, Velazquez, Watt, Carson, Meeks, Inslee, Moore, Ford, Hinojosa, Lucas of Kentucky, Clay, McCarthy, Baca, Matheson, Lynch, Miller of North Carolina, Emanuel, Scott, and Davis.

The CHAIRMAN. The committee will come to order. And pursuant to the Chair's prior announcement, the Chair will recognize himself and the Ranking Minority Member for 5 minutes each for opening statements, and the chair and ranking minority member of the Subcommittee on Housing and Community Opportunity for 3 minutes each. All members' opening statements will be made part of the record. This is the Greenspan rule, in effect. You are in good company, Mr. Secretary.

Today the committee welcomes back HUD Secretary Mel Martinez. I would like to note that this is the Secretary's third time before the committee since I have been Chairman to speak on the administration's budget proposals. He has also been before the committee on other housing topics such as reform of the Real estate Settlement Procedures Act. We appreciate all the work that you do. We truly understand that in these difficult times you have exhibited the type of leadership necessary to move the Department of Housing and Urban Development and Federal housing policy in the right direction. For that, we are all very grateful.

Today, Secretary Martinez will explain the administration's fiscal year 2004 budget proposal. There are several bolded issues that will command the attention of this committee. It has always been my policy that we should have a thorough understanding of the issues and then let the committee work its will to foster a housing policy that is comprehensive, that maximizes the taxpayers' investment in housing and economic development, and that makes common sense.

Around the country, national and local newspapers are running articles about housing. In some cases it is about the public, private, and nonprofit partnerships that make housing affordable. In other cases it is about expensive urban centers that no longer have affordable housing for those working families making minimum wage salaries. Or it is about rural areas where economies of scale do not allow for the building of affordable house. As always, we can do better.

Today's witnesses, including Secretary Martinez, will address different perspectives of our Federal housing policy. The administration's housing budget proposes to, among other things, convert Section 8 tenant-based housing vouchers to State-mandated block grants with a transition period in fiscal year 2004 and full implementation in 2005; provide a new FHA product for subprime borrowers, which will assist many homeowners who have been locked out of the traditional mortgage finance markets; provide an additional $200 million for the American Dream Down Payment Initiative, which will assist low-income families whose only barrier to home ownership may be difficulty in saving for a down payment; and enhance single-family direct loan programs in the Rural Housing Service to provide more home ownership opportunities for very low-income families in rural areas.

The proposed budget also plans to eliminate some programs that I know are important to members of this committee. This will be an opportunity for the Secretary to explain those changes as well as how the administration intends to continue addressing the issues through different programs. Because the Housing Subcommittee also has jurisdiction over the National Flood Insurance Program which plays a key role in home ownership, the administrator of the flood program will address its budget proposal as well.

Let me say welcome to Secretary Martinez, to Rural Housing Administrator Art Garcia, Federal Insurance Administrator Anthony Lowe, and the Executive Director of the Neighborhood Reinvestment Corporation, Ellen Lazar. All of you represent agencies that have made a worthwhile contribution to housing policy and your comments today will be most helpful in assisting this committee in its work.

The Chair's time has expired. I now yield to the gentleman from Massachusetts, the Ranking Member of the committee.

Mr. FRANK. Thank you, Mr. Chairman.

Mr. Secretary, thank you for your availability and your willingness to stay and answer questions fully as you have said you would do. We appreciate that. We don't always get that from various high-level people.

I am seriously troubled by several aspects of the housing budget. First is public housing. The poorest people in this country live in public housing. There are people who are critical of public housing and say it is not very good housing, but they don't understand that no one lives in public housing under court order. People are in public housing because, as inadequate as it may seem to many, it is the best that those people who live there can afford. It is a very important resource. And having the public housing operators of this country be subjected to the fiscal storms that they have been suffering in the past few months is really just unconscionable.

As you know, your Department announced that as of now, agencies are getting in many cases 70 percent of what they admittedly need to operate. We were told that could go to 90 percent once the appropriations bills were passed. Of course, those appropriations bills were held up for an outrageously long time. But now that the appropriations bills have been passed, the ranking member of the subcommittee and I, as you know, had written to you and asked, when are we at least going to get the 90 percent? Now, it is a pretty sad situation when we are begging you to give them 90 percent, when 100 percent isn't enough to do what they ought to be doing. But the one thing you can say about the 90 percent is that it beats the hell out of 70 percent. And now I don't know how many weeks after we passed this it is still at 70 percent.

Telling the people who run public housing and administer to the poorest people and people beset with problems that they are going to go with 70 percent, and it will take a while even to get them up to 90 percent, is unconscionable. In addition, we are told that the problem has been that there has been this ongoing shortfall in the operating subsidy account in 2001 and again in 2002. We were told the problem here is that in fiscal year 2002 there was this $250 million shortfall.

What troubles me is that you have apparently decided to pay for the $250 million shortfall—that is the number that HUD gave us—by taking it from the fiscal 2003 appropriation.

Now, the problem here is that you sent up a budget before there was any knowledge of the $250 million shortfall for fiscal 2003. You got from the committee only slightly more than you asked for, I believe about $70 million. And out of that number, you are going to take $250 million. So the problem is that we are going to solve the problem of the shortfall apparently by creating another shortfall; because public housing, if you were right in what you asked for fiscal 2003 and you subtract $250 million from that, by your own numbers there is a shortfall.

We should add that that shortfall is exacerbated by the fact that when this administration took office, it got Congress to abolish a $300 million program that existed in addition to the operating subsidy for public housing to combat drugs in public housing. We were told, pay for that out of your operating subsidy. So we now have a $300 million program that was abolished that is to be paid for out of an operating budget that is $250 million less than it used to be. If Enron had done that, there would be more of them in jail than there are going to be.

Next we have the problem of production. The fact is that the housing crisis in this country in many areas has gotten worse. The very prosperity that was such a blessing for this country, and which many of us miss and hope will return, in some cases exacerbated the housing crisis because of the nature of the market, the geographic distribution, et cetera. It is in my judgment impossible for us to go forward in alleviating that without a Federal program thoughtfully designed to help housing production. And in fact, we had this question last year, we had a dispute not about whether or not to have a housing production program but what kind to have. We had a vote. The gentleman from Vermont had a proposal, and we had a vote and it was countered by a proposal offered by the gentlewoman from New York. And the proposal offered by the gentlewoman from New York was to authorize funding for State and local housing trusts. We had proposed, many of us on this side, to go with a national one. There was a very close vote, a one-vote margin. But the dispute was, should we have a new production program that goes entirely through the State and local trusts for production, or should we do a national one?

And after this committee split on that issue of how, not whether, apparently—and I have read this, and perhaps you were misquoted, that does happen from time to time here— you intervened and asked that the bill not come to the floor because of the possibility that the House might actually authorize a production program. And I think that is a serious problem we have.

When this committee overwhelmingly voted—and I would not doubt the sincerity of the people on the other side, even if I could under the rules—when they voted for a program that allowed this money to go through the local and State housing trust, I am sure they did this out of a conviction that we should help build housing production, not simply to stave off a more popular proposal.

And so when this committee divides along those lines and you then intervene to get the whole bill killed and with it kill a lot of other good proposals that I thought weren't controversial, I am very disappointed. So I think we have a very serious set of problems facing us.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

The CHAIRMAN. The Chair now recognizes the gentleman from Ohio, the chairman of the Housing Subcommittee, Mr. Ney.

Mr. NEY. Thank you, Mr. Chairman.

And I am pleased that we are having this hearing today. As we are aware, HUD, the Rural Housing Agency, FEMA, the Neighborhood Reinvestment Corporation, are all important parts of providing housing in the United States. And particularly, I am interested in the proposals proposed by HUD for reforming the Section 8 voucher program and of course the elimination of the funding for the brownfield development.

There is no doubt, I think we all recognize, Section 8 is in need of reform. Right now, the program takes up about 50 percent of HUD's budget; at the same time, not all the vouchers we fund are being used. We can't afford to keep operating the program as we have, although I want to praise the Secretary for—you know, we have talked, and I know the statements that you want to do something always to make things better.

So the committee is going to have to consider how to reform the Section 8 program so that the vouchers are being utilized, people who need vouchers can use them even in the high-cost areas. And that cost of vouchers, we have got to make sure it doesn't grow out of control. And I am not sure what the best way is to do this, to be frank, but we will be willing to work with you and to partner with you and to work with the members of the committee on both sides of the aisle.

Furthermore, of course, there is a debate about HOPE VI and if HOPE VI is to be continued or whether reforms are necessary. And again, I think it is a subject that we need to spend some time on to come to some conclusions of what happens with that program.

And I had mentioned the brownfield, which I think is very important. Early this year one of our committee members reported his bill 239, H.R. 239—that was Gary Miller—which would make it easier for communities to use the brownfield development money. I think it would be unfortunate, after that being reported, to somehow be able to have legislation passed and then not have the money that is needed to do that.

Despite the questions I have, I applaud the Secretary, what you have done to work on reform. You have been working hard to update the technology that HUD uses, to streamline your programs, and to bring greater accountability to the Department. There is a lot more work to be done, but I am sure that working together we will all face the job. So I appreciate your time here, Mr. Secretary. Thank you.

Secretary MARTINEZ. Thank you, sir.

The CHAIRMAN. I Thank the gentleman.

The CHAIRMAN. The gentlelady from California, Ms. Waters.

Ms. WATERS. Thank you very much. I would like to thank you for holding this hearing today. And Secretary Martinez, I thank you for your presence. You are going to be made to feel a bit uncomfortable here today, because you are going to hear over and over again from many of us about what we don't like about this budget. I would like to believe that if you had your druthers, you would give us adequate funding, you would advocate for it, and you would make sure that we are meeting the needs of our citizens for housing and particularly our poor citizens.

Having said that, let me just share with you what my concerns are. First, starting at the poorest levels, homelessness. I am very, very concerned that this budget does not really deal with the growing homelessness that we have in this country. And while I think there is some reference to dealing with kind of the permanent homeless, in the city of Los Angeles, downtown Los Angeles, around our city hall and our government buildings and hotels, we are stepping over homeless bodies on the street. It is absolutely shameful. And I really do believe that the Federal Government must be in partnership with our cities to really deal with the homeless problem.

Also, public housing. All of us are very concerned about the shortfall that was announced for public housing. You know, public housing—despite the fact there are people on waiting lists that need to get in, people who can't really find housing anyplace else—is a place where people are often blamed for the way the housing looks. They are blamed because the trash is not picked up, they are blamed because the buildings are not painted, they are blamed because the plumbing is not working. But that is really a problem of management at our public housing authorities. And it seems to me they cannot do the job unless they have the operating budget to do it. Whether it is the plumbing and repair or the screen doors or security, we must have an adequate amount of dollars to ensure that we can keep up these places, because we have the poorest people living there, with the least number of resources themselves. And so that is a responsibility. We cannot be slum lords. The government must have the kind of operating budget—and I do want to hear whether or not we are going to be operating with 70 percent or 90 percent. As Barney said, we should be talking about 100 percent.

Please explain to us about HOPE VI. As you know, most of us like that program. It has relocated approximately 41,000 families to better housing, demolished over 51,000 distressed and obsolete units, and rebuilt 19,000 public and nonpublic housing units. So we need to know why, when we are on the track for doing something good, then all of a sudden we don't have access to those resources anymore.

As for Section 8, we have waiting lists in many of our cities and certainly we do in the city of Los Angeles. I am not—I am not at all interested in privatizing Section 8, I am not at all interested in block granting Section 8. I come from a State where we have a $35 billion deficit. I don't want to block grant anything to my State, because anything that gets block granted, monies will be siphoned off to pay for other things. And so we have to be very careful about that.

Having said that, let me also add that CDBG is a very important resource, the Community Development Block Grant. We should have a substantial increase in CDBG. Not only do we have CDBG that provides money for housing, but for all of those nonprofits out there that are doing the kind of work that is so desperately needed, whether we are talking about some of that money going to seniors or to children or to other efforts in the community to basically help poor people.

And so while again I would like to believe that if you had your druthers, you would do it differently and you would advocate for more money, unfortunately you are on the hot seat. I mean, the buck stops with you on this one. So you have to tell us what you are going to say and what you are going to do about all of these issues that we are bringing to your attention today.

I still thank you for coming. I may have to go in and out, but I will certainly have access to whatever information you are going to share, and I thank you very much.

I yield back the balance of my time.

The CHAIRMAN. The gentlelady's time has expired.

The Chair would now wish to recognize Mr. Feeney from Florida for the purpose of introducing the Secretary.

Mr. FEENEY. Thank you very much, Mr. Chairman. It is indeed a great honor to introduce a very close friend of mine and somebody I admire a great deal, our 12th Housing and Urban Development Secretary here in the United States. Secretary Martinez was unanimously confirmed in January of 2001. He is a graduate of Florida State University Law School among other things, and, like me, he is a recovering lawyer, and practiced law in Orlando for about 25 years. Before becoming, Secretary, he was elected as Orange County's chairman, served on the Governor's Growth Management Study Commission, and did a remarkable job in central Florida. And we are so proud to have him as our favorite son.

As HUD Secretary, he has worked to strengthen our communities by launching programs such as HUD's Center for Faith-Based and Community Services. He has expanded home ownership opportunities throughout the United States, and he is actively working to reform and simplify the home buying process to make the American dream of home ownership available to more Americans.

So Mr. Chairman, it is a great delight and privilege for me to introduce a hometown fellow, and a good friend of mine, Secretary Martinez.

The CHAIRMAN. I thank the gentleman.

And, Mr. Secretary, welcome back. And after that high barrier that the gentleman from Florida set for you, I am sure you can equal or exceed that. So welcome back.

STATEMENT OF HON. MEL MARTINEZ, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary MARTINEZ. Thank you, Mr. Chairman. It is a pleasure to be back. It is a particular pleasure to see on the committee some Florida friends like Congressman Feeney and the Congresswoman from Sarasota who is also a dear friend.

We are delighted to be back here today to talk about the fiscal year 2004 budget. And I have prepared remarks, and I would like to make them part of the record.

The CHAIRMAN. Without objection.

Secretary MARTINEZ. I am going to go through some prepared remarks, but I do also want to be sure in my opening comments perhaps I can begin to deal with some of the issues that have been raised by some of the members and their concerns, because I do think that while a lot of these things may sound draconian, they do have, I think, a certain amount of logic and a good number of them also have some pretty good answers.

We are at a time of some great uncertainty in the world, and the administration continues focusing on strengthening the United States economy. Creating affordable housing options remains a critical component of the President's agenda. HUD's proposed $31.1 billion budget offers new opportunities for families and individuals and minorities seeking the American dream of home ownership. It offers new opportunities to increase the production of affordable housing and expand access to housing free of discrimination. It provides new opportunities for strengthening communities and generating renewal growth and prosperity with a special focus on ending chronic homelessness. And our budget creates new opportunities to improve HUD's performance by addressing the internal management problems that have long challenged the Department.

I know that this particular subject is of great interest to the committee, and we will be talking to you a little more about that in the course of my testimony.

I want to discuss, first, home ownership. The President has committed this Nation to creating 5-1/2 million new minority homeowners by the end of the decade. Several new and expanded proposals for the fiscal year 2004 budget will increase the availability and production of affordable homes and help more families to know the security of home ownership.

As a first step, HUD proposes to fund the American Dream Down Payment Initiative at $200 million. The initiative will help approximately 40,000 low-income families with a down payment on their first home. We also reach out to low-income families hoping to make the move into home ownership by allowing them to put up to a year's worth of their housing choice vouchers assistance towards a home down payment.

To promote the production of affordable single-family homes in areas where such housing is scarce, the administration is proposing a tax credit of up to 50 percent of the cost of construction of a new home or rehabilitating an existing home.

HUD is committed to helping families to understand the home buying process and how to avoid the abuses of predatory lending. The fiscal year 2004 budget will expand funds for counseling services from 40 million to 45 million. This will allow us to provide 550,000 families with home purchase and home ownership counseling and about 250,000 families with rental counseling.

Our budget also strengthens HUD's commitment to shop the Self-Help Home Ownership Opportunity Program. SHOP is the key initiative that turns low-income Americans into homeowners by partnering with the Federal Government with faith-based and other community organizations. The program is funded at 65 million, which will support the construction of 5,200 homes.

Along with boosting home ownership, HUD's proposed budget promotes the production and accessibility of affordable housing for families and individuals who rent. We achieve this in part by providing States and localities with new flexibility and additional resources to respond to local needs. The Home Investment and Partnership Program is a major tool for helping communities meet housing affordability needs.

As reflected in this year's program assessment, the HOME Program is successful because it is well managed and its flexibility insures local decisionmaking. Our budget, Mr. Chairman, provides a 5 percent or $113 million increase over the amount the administration proposed for the HOME Program in the fiscal year 2003, which I believe is a real shot in the arm to those who believe that housing production is an essential part of what must be done in America's housing strategy. HOME will make nearly $2.2 billion in funds available to State and local grantees to help finance the cost of land acquisition, new construction, rehabilitation, down payment, and rental assistance.

To ensure greater flexibility within the Section 8 Housing Choice Voucher Program, and to empower States to make decisions based on local needs, we propose converting the voucher program to a State-run block grant called Housing Assistance for Needy Families. Turning over administration of the program to the States is the appropriate way to ensure the best service for needy families while improving its management by putting it closer to the people that it is intended to serve.

Our budget includes legislative proposals that would substantially improve living conditions within public housing communities by giving public housing authorities new ability to leverage private capital. The Public Housing reinvestment initiative would authorize HUD to replace public housing subsidies for development or portions of development with project-based voucher assistance. Our budget also adds a partial loan guarantee that will cover up to $1.7 billion in loans. This financial restructuring will allow VHAs to secure private financing to rehabilitate or replace aging properties on a property-by-property basis, as other affordable housing owners do.

The Public Housing Reinvestment Initiative reflects our vision for the future of public housing. For 10 years, the HOPE VI Program has been an avenue for funding the demolition, replacement, and rehabilitation of severely distressed public housing. Established to revitalize 100,000 of the Nation's most severely distressed public housing units, the program has already funded the demolition of over 115,000 such units and the production of another 85,000 revitalized dwellings.

With a 2003—2002 and 2003 appropriations, we anticipate being able to demolish an additional 15,000 units and replace 15,000 more. Just this week we began notifying those communities that have been awarded HOPE VI grants for 2003. With $2.5 billion already awarded but not yet spent and an additional $1 billion to be awarded in 2002 and 2003, HOPE VI will continue to serve communities well into the future.

When HOPE VI was first created, it was the only significant means of leveraging private capital to revitalize public housing properties. But that is no longer the case. Today HUD has approved bond deals that has leveraged over $500 million just in the last couple of years. PHAs can mortgage their properties to leverage private capital. In Maryland and Alabama, PHAs are combining efforts to leverage their resources and assets to attract private capital. Some cities like Chicago are committing hundreds of millions of dollars of their own money to revitalize public housing neighborhoods.

HUD is also seeking additional tools from Congress such as the Public Housing Reinvestment Initiative. HOPE VI has been a successful program that was created to serve public purpose. It is time to look at the future, and the future also is full of opportunities. And I look forward to working with the Congress as to how we together might like to create ways to learn from HOPE VI and move to new areas of opportunities for urban revitalization.

Regulatory barriers through the State and local level have an enormous impact on the development and the creation of affordable rental housing. Within the 2004 budget, HUD builds on its commitment to work with States and local communities to reduce these regulatory barriers. Through the new Office of Regulatory Reform, HUD will spend an additional $2 million next year to learn more about the nature and extent of regulatory problems and how to reduce the effects of excessive barriers to rental and affordable house. The President has made it a top priority to reduce the cost of regulatory barriers at the Federal level as well, and at HUD we are committed to doing so.

I am sorry. Were you to your break point or not? Okay.

State and local governments depend upon HUD grants to support community development projects that revive troubled neighborhoods and spark reinvestment and renewal. In the 2004 budget, HUD will strengthen its core grant programs by ensuring the grantees have even greater flexibility to address locally determined priorities. The CDBG program will provide $4.4 billion in funding to meet local needs in more than 1,000 jurisdictions. In 2004, HUD would make programs more effective by studying ways to reward communities that commit to results-oriented, outcome-based performance results.

The CHAIRMAN. Mr. Secretary, if you would suspend just a second. The Chair would indicate there is a vote on the House floor. It would be my feeling, after consultation with the Ranking Member, to continue the Secretary's testimony, with 10 more minutes left on the vote. Some of our members went over to vote and come back, so we will try to keep this moving without a break. So, thank you, Mr. Secretary. You may continue.

Secretary MARTINEZ. Through the fiscal year 2004 budget, HUD will strengthen its efforts to protect the Nation's most vulnerable, those individuals and families who truly need government assistance. The budget funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead paint hazards.

I want to highlight the administration's and President's commitment to those who have no place to call home. Across the scope of the Federal Government funding for Homeless Specific Assistance Program increases 14 percent in the fiscal year 2004 budget proposal. This American initiative is an important new element of the administration's strategy to end chronic homelessness within a decade. This American initiative includes a proposed competitive grant that would be administered jointly by HUD and the Departments of Health and Human Services and Veterans Affairs. For 2004, HUD provides $50 million for the housing component of this initiative, while HHS and VA will each provide $10 million for services such as substance abuse treatment and primary health care.

To increase a community's flexibility in combating homelessness, the budget proposes to consolidate the current three competitive homeless assistance programs.

Finally, in recognition of the effectiveness of the recently reactivated Interagency Council on Homelessness, the Department would provide $1-1/2 million to operate the Council in the fiscal year 2004, which represents a 50 percent funding increase.

HUD has made great progress over the past 2 years in making the Department work better for the taxpayers and for every American who seeks a place to call home. HUD fully embraces the President's management agenda and is on target to meet its challenging goals of improving overall efficiency and effectiveness. The steps the Department has taken thus far have gone a long way towards restoring the confidence of the Congress and the public in HUD's management of its financial resources, and I can assure the members of this committee that our commitment to the highest standards of ethics, management, and accountability will continue in the coming fiscal year. And I look forward with the members of the committee in working towards common solutions to the problems that vex America's cities.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

[The prepared statement of Hon. Mel Martinez can be found on page 122 in the appendix.]

The CHAIRMAN. And let me begin the series of questions for you.

As you know, the overall HUD budget calls for a slight increase to 31.3 billion, up from 31.245 billion in fiscal 2003. With some agencies all over the Federal Government taking drastic cuts, could you explain to this committee how the fiscal year 2004 overall budget numbers are actually a good sign that the President is committed to housing, particularly given the tight budget climate and the international crisis?

Secretary MARTINEZ. Mr. Chairman, I don't think there is any question that we must understand that this budget is in the context of what is happening around our Nation and the world. It is in the context of all of the priorities that our Nation faces. But notwithstanding that, because of the very important issues that were raised about a housing trust fund, it was felt by us that we needed to do more to encourage housing production, which is why we increased housing production under the HOME Program by 5 percent, a $113 million increase in that very program.

And, you know, Ranking Member Frank might give me credit for things that I am not powerful enough to do. I must say to you that I am not sure that National Housing Trust Fund is the right way to approach the problem. In the HOME Program, we have a program that works, that has a proven track record, and in fact that 5 percent increase is a substantial increase. We also focus on the President's priority on home ownership. We move forward in that area aggressively with a Down Payment Assistance Program.

Also in the area of homelessness, as Ms. Waters commented, the homeless problem in America is a serious problem. Our attack on the homeless issue also increases funding with the New Samaritan Grant Program. These are all welcomed things that I believe are good news in our budget, and frankly I think will make a real difference in programs that find ways to help American families where they need it the most.

The CHAIRMAN. Mr. Secretary, as you know, the President has proposed an elimination of the double taxation on dividends, something that our committee obviously has a major interest in. There are some folks, however, that say that the unintended consequence would be loss of certain tax shelters, a possible loss of 44,000 new units under the first year enacted. That was an Ernst and Young study. Would you care to comment on the impact of the President's proposal, particularly on the low-income tax credit, and ultimately on affordable housing in general?

Secretary MARTINEZ. Mr. Chairman, first of all, I should say that the Ernst and Young study, while it does make the claims that you allege, the Department of Treasury, who is ultimately in charge of fiscal policy and tax policy for the administration, has a different view of it. Their view is that the effect will be minimal. And I would say that in addition to the Department of Treasury's view of this, the Mortgage Bankers Association also has an analysis of the tax proposal which also seems to suggest little or no consequence to the low-income housing tax credit.

I believe that there have been various different views of that. I have had people initially become alarmed by it, and as they have looked at it further, understand that perhaps the impact is not what is purported to be. So I think we must go forward with this tax package, which, at the end of the day, is going to create more jobs and is going to create more opportunities for America to be better housed, to move our economy to a stronger point; and that overall goal may be the overriding issue that we need to keep in sight.

So I believe we need to continue to move this process forward, to allow the President's tax proposal to move forward so that we might see the type of robust economic recovery the President wants and I know the members of this committee would also like to see.

The CHAIRMAN. The fiscal 2004 budget calls for elimination of HOPE VI. What is your view on HOPE VI? Some say it has been successful, others say it has not. Is the administration prepared to replace HOPE VI with some other method? Give us your thoughts on that, if you will.

Secretary MARTINEZ. Sure. I think it is a fair question. It is a program that I think by and large has been largely successful. There are some things about HOPE VI that have caused concern in a number of circles, and a number of studies have been done on HOPE VI, and I think all of these ought to be analyzed.

The first thing I should say is that this was a 10-year program. It was a program that came up for reauthorization this year. The history of HOPE VI will tell us that while it has had great success in revitalizing many parts of our country, only 14 out of 165 projects that have been funded have been completed. The promise of HOPE VI really remains yet unfulfilled. In addition to the—out of the $5 billion that have been funded through HOPE VI over the last 10 years, only 2-1/2 billion have been expended. So, 2-1/2 billion remains unexpended, with an additional billion in this year's cycle and in next year's cycle still to be awarded.

My point on this is that we are at a time when it would do us good to allow the projects to be completed, to move forward and the money to be spent out, while at the same time we continue to fund this year's cycle and next year's cycle with monies already appropriated, and then take a good look at what have been the lessons of HOPE VI. I know that if we were here under different circumstances, many would be concerned about the displacement of folks from the HOPE VI projects that have been already undertaken. That is an issue that needs to be addressed. We haven't dealt with that very well.

So I think as we look to the future, that it is not an abandonment of a good idea, but is a time to rethink those things that are good about HOPE VI, while at the same time attempting to improve those things about HOPE VI that haven't worked so well, like the issue of the relocation of families and how many families in fact that lived in public housing, that lived in those projects that were then torn down, have been able to move back into those housing projects that have now been revitalized.

So I believe that while largely it is successful, it is an area that remains one that we should study more closely. And it appeared to us that at a time when the process of HOPE VI was up for reauthorization was a good time to take a good hard look at it, learn from successes, learn from failures, and move forward.

The CHAIRMAN. Our time has expired. The gentlelady from California, Ms. Waters.

Ms. WATERS. Thank you very much, Mr. Chairman. And you have raised some of the questions that I would like to ask.

But continuing in this discussion about HOPE VI, you agree, we all agree it is a good program. And I am looking at the numbers that you have talked about, 2.5 billion I think you said that is left to be spent; 1 billion of that in this funding cycle.

Secretary MARTINEZ. This one and next year. Half a billion and half a billion. So it is correct. The prior funding cycle and this funding cycle, we just funded some projects.

Ms. WATERS. How many years have we been into HOPE VI?

Secretary MARTINEZ. Ten years.

Ms. WATERS. So what you are saying is that the grant lags behind the 10-year anticipated time by which we would spend all of the money for HOPE VI.

Secretary MARTINEZ. Correct.

Ms. WATERS. And, therefore, we are not asking for any more; we want to spend this money.

Secretary MARTINEZ. Right.

Ms. WATERS. But you agree, based on everything that you know, that HOPE VI is a good program.

Secretary MARTINEZ. HOPE VI is a good program.

Ms. WATERS. So shouldn't we not only speed up the granting, but increase it so that we can get on with the business of getting rid of the outdated public housing developments, create more housing opportunities?

Let me tell you what I am really worried about. Go ahead.

Secretary MARTINEZ. May I touch on that point? Because I think it is very pertinent. When we look at the city of Chicago, Mayor Daley is doing a phenomenal job. The city of Chicago had some of the worst examples of what public housing shouldn't be. They still do. And we have moved very aggressively through HOPE VI to fund that city. Right now we had three projects going into closing this month. We have now learned they are not going to be able to close on them. I am not sure how much good it would do for us to fund Chicago with more HOPE VI's this year, next year, or frankly for the next several years, until they can get done what they have already had funded for them. So that is my point. It isn't that it is a bad program.

Ms. WATERS. But this is in the country, Mr. Secretary. We have dilapidated public housing all over the country. What about New York? What about Los Angeles? What about——

Secretary MARTINEZ. But what is it about the way we are doing HOPE VI now that entangled it and it takes so long for the money to get out? What I would like to see is the same thing you would like to see. I would like to see all of this money, this $2-1/2 billion, $3-1/2 billion that we still have in the pipeline, I would like to see that go in the ground and dirt turn. But I know how long it takes for these projects to come together, because—I am not sure that we are doing it the right way. I am not sure that housing authorities were ever intended to be developers. They were rental property managers. That is what public housing authorities are. Are they the best vehicle by which to make sure that the HOPE VI projects go forward?

When you hear from people in your district and they tell you that they have got displaced from a HOPE VI and they don't have a place to go, what do we do with those people? They are not going to come back oftentimes to that project.

Ms. WATERS. But Mr. Secretary, that is what we expect you to do. We expect you, once we authorize and fund, to just get it done. We don't expect that they have this lag—if the public housing authorities are not capable of developing—and they probably are not, because the public housing managers, particularly these large public housing authorities, are not asked about their development experience, their construction experience. They are managers. So if we know that doesn't work, why don't we just institute a program by which we can get developers in there to get these projects online and get them done?

Secretary MARTINEZ. So just like with that issue, there are a number of things about HOPE VI which, while a good program, need to be addressed. At this time of reauthorization, with substantial money backlog and in a difficult budget choices year, doesn't it make sense for us to take a good deep breath, to look at the program, to see what works and what doesn't, and jointly between us—with proposals, but also with your input—together fashion what HOPE VII ought to look like, HOPE VIII ought to look like?

How do we continue on some sort of commitment to the revitalization of public housing in a way that may be yet even better? In addition to the fact—and I have not mentioned this other than in my formal comments—that we are also working with the private sector to find ways that public housing authorities can, independent of the Federal Government, go into the private marketplace and finance reconstruction and revitalization of their projects. This is a very significant thing. A substantial amount of dollars already is going into these kinds of private financing arrangements. Chicago is leading the way, Philadelphia is doing it, other cities are coming on board. And we want to encourage that as well.

So HOPE VI is not the only way that we can revitalize public housing in America. The private sector dollars, through private financing, through ways that we are evolving into, also can provide a real solution to the problem.

Ms. WATERS. So what you are telling me is that some of your public housing authority is already going out. They are putting requests for proposals out for developers to come in and look at how they can do some of this work? Is that happening already?

Secretary MARTINEZ. It is happening, I am not sure exactly as you phrased it, but they are going to the private sector seeking bank loans so that they can then themselves rebuild their projects or revitalize those public housing authorities that need that. And so that is occurring today. But we cannot now do a HOPE VI with anyone other than the public housing authority. We would need congressional authorization for us to do the project in a different way.

Ms. WATERS. Well, let me just wrap this up by saying we need to have more discussion about that and take a look at what you can do given the authority that you have.

Finally, let me just say, Mr. Secretary, I am very concerned about public housing developments that do not have enough operating money. I am very concerned that they are going to continue to fall into disrepair, and that it would be exacerbated by the fact that we have lost funding and drug elimination programs and other kinds of things. And it is not fair to blame the poor people for lack of good management by us and the operating dollars that we need to make these livable places. I certainly hope you are going to increase the operating expenditures from that 70 percent that you announced not too long ago that shocked us all.

Secretary MARTINEZ. Well, if I may directly answer that. I think within a week of that announcement going out, which was ill advised, which was done because we didn't have a budget, no budget was passed, and we were trying to take the safest course of action, we quickly advised the public housing authorities—and you should be aware of the fact that it was going to be a 90 percent funding level. And what I would say about that is that what we are doing is something that I am extremely proud of. We are in fact fixing a longstanding financial problem at HUD that recurrently causes the shortfalls in funding to public housing authorities. Next year this problem will not occur because we fixed the problem.

But a funding level of 90 percent is not historically without precedent in public housing authorities funding. I would say to you that in 1999, it was only funded at 92.5 percent. It was funded in 1996 at 89 percent. And in 2002, we funded it at 100 percent. In 2001, it was funded at 99 percent. But over the last 10 years, the history of public housing funding at these levels of 90 percent to 100 percent is not without precedent.

The CHAIRMAN. The gentlelady's time has expired.

Ms. WATERS. Thank you very much. I appreciate that.

The CHAIRMAN. The gentleman from Ohio, Mr. Ney, chairman of the Housing Subcommittee.

Mr. NEY. Thank you, Mr. Chairman.

Mr. Secretary, as you know, the President has proposed a tax reform package, stimulus package, which I support. But in there it eliminates the double taxation on dividends. Some people, however, believe the plan would have an unintended impact on certain tax shelters, and the Ernst and Young study cited a possible loss of about 40-some-thousand new affordable units the first year the plan would be enacted. Do you have any thoughts on this or maybe how it would be altered for a carve-out?

Secretary MARTINEZ. I am sorry. Congressman Ney, my concern is that, you know, we at HUD do not lead on tax policy. And we are watching this situation, are greatly concerned, and are discussing it within the administration. I assure you that the President is concerned about the impact on housing policy. The President is very committed about increasing the availability of affordable housing. That is why we have the single-family housing tax credit proposal.

I believe that the concerns that have been raised at this point, even with the Ernst and Young study which is under consideration and study by the administration, that the administration still is prepared to stand by the projections of the Department of Treasury, which does strongly believe that the impact on housing will not be what was forecasted by the Ernest and Young study.

But we continue to study the situation. I know the administration wants very much to ensure that we don't have a detrimental effect on the housing supply, and so we will continue to study and analyze the situation. But the Department of Treasury will have the lead on tax policy. We at housing are housing advocates, and I assure you we are making sure that the administration hears the concerns of the industry, hears the concerns from people in the low-income housing credit field, and those concerns are being addressed in the administration.

Mr. NEY. Thank you. I do believe it was an unintended consequence, not something that was planned as part of the overall stimulus package.

Also, the National Housing Trust Fund campaign will be introducing legislation, I think it is today, to create the National Housing Trust Fund. According to sponsors, they call for surplus FHA funds to be the major dedicated source of revenue for that National Housing Trust Fund, which they estimate to be 34.124 billion between now and fiscal year 2009. Do you have any comments on that?

Secretary MARTINEZ. Yes, sir. First of all, I would say that we have maintained and continue to maintain that a National Housing Trust Fund would not be the right avenue by which to create a greater production of affordable housing in America. We believe that many States do have housing trust funds and they fund them in various and different ways, and these are very productive that work through their various and sundry State programs.

We believe that our increase in the HOME Partnership Program, which is a very successful program, where we are this year going to be funding it at $2.2 billion with an increase of 5 percent, or $1.3 million, is the right way to address a housing production affordability problem.

I continue to also maintain that the needs of affordability can only, ultimately, be solved at the local level, by mayors, city council members, and others at the local decision-making level, rolling up their sleeves and looking at their local regulations and what it does to affordability. We are working in that vein as well.

And so we are continuing to look at how HUD can be of assistance to local communities with regulatory reform. We are creating a clearinghouse for regulations, we are looking at how we can provide vehicles for people to be better informed about the cost of regulation and what it does to the cost of housing at the local level.

So, while the Federal Government has the responsibility, which we believe we best meet through the HOME Program, we also want to work with local government as they need to address the issues of affordability.

One last point I would make is that—I lost my train of thought. I am not sure what that last point was, but I will come back to it.

Mr. NEY. It had to be a good one though.

Secretary MARTINEZ. I am sure it is coming. Just hang on.

Mr. NEY. One quick—because my time is running, Mr. Chairman and Mr. Secretary.

We struggled for a long time with manufactured housing. This is before your time at HUD. And you have requested 17 million for implementation of the Manufactured Housing Standards program. That is up 31 percent from 13 million in 2003 and more than double, 8 million actual, in 2002; and I think that is tremendous.

I used to and still hear a lot of people saying, though, that we need to quicken the pace on implementing reforms enacted by Congress in the Manufactured Housing Reimprovement Act of 2000. It is an important resource of unsubsidized housing for moderate-income families, and right now they are having a downturn, as many people are in this country, but we do credit the increase.

And I just wonder if you have any other thoughts on that manufactured housing. And do you think the pace is going where it should be, or can it be accelerated?

Secretary MARTINEZ. I think it probably could be accelerated. But at the same time, I also want you to know that we are working very closely with a new committee that was created in order to have a voice at our Department for the manufactured housing industry.

I have traveled and had an opportunity to see some of their products, met with some of the industry leaders, and I believe it is a housing option that America increasingly needs to embrace. I think it would be good for a lot of the affordability problems, frankly, if we liberated some of the constraints on financing for manufactured housing. And so I look forward to continuing to work with the industry in that vein.

And my brilliant thought came back to me, which is, frankly, that I think the proponents of a national trust fund really are approaching a very wrong source for funding if they think the FHA insurance reserve is an appropriate place to look for found money.

The fact is that the so-called FHA surplus, it really is an FHA insurance reserve. FHA is an insurance product that has been a key to home ownership for poor and first-time home buyers in America for a long time in our history and nothing we should do to tamper with the solvency and the financial solid nature of FHA.

I know that only a few years ago, before my time, but I know a few short years ago this Congress was very concerned about the solvency of FHA. Fortunately, through many changes that were made by the Congress wisely at that time and good management, the FHA now is in a very solvent condition. But ultimately, any money FHA has is a premium that it charges poor families in America at the time they buy a home. And we are working diligently to ensure that surplus, that excessive reserve, as some view it, does not continue to grow and is not more than it ought to be.

And what we will do is to find ways in which the FHA can continue to serve America's neediest and also keep the premiums in check and work with ways that we can eliminate unnecessary premiums to American families.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Massachusetts, Mr. Frank.

Mr. FRANK. Mr. Secretary, I am impressed by your modesty. But maybe you and I ought to get together and correct a misstatement in the press—not, perhaps, for the first time.

You said I was imputing to you more power than you perhaps have. I assume you meant when I said that you would intervene to get the bill killed.

On January 25th of this year, the National Journal in an article said, Martinez opposed the fund; the measure passed in the committee vote. Only then did Martinez pay attention, calling on the

VA-HUD subcommittee chairman. They got a little confused on the procedure though.

Martinez stopped the markup and got another committee vote scheduled, successfully killing the bill. And then after we had that division about how to do it, it never came to the floor.

Do you want to take the occasion now to correct this egregious error apparently in the National Journal?

Secretary MARTINEZ. I would be delighted to correct a lot of egregious errors in——

Mr. FRANK. Well, just one at a time. You can do the others on your own time.

Secretary MARTINEZ. I only got a C-plus from them, and one of my Cs came from congressional——

Mr. FRANK. But let us talk about specifics here. Is this wrong?

Secretary MARTINEZ. Yes, sir, I will talk specifically about——

Mr. FRANK. Is this wrong?

Secretary MARTINEZ. I don't know that all the ultimate conclusions that it raises are correct. I don't think that I was the person who ultimately did not allow that to come to the floor.

Mr. FRANK. Did you intervene to try and get the bill killed?

Secretary MARTINEZ. The first thing I would correct is that I didn't pay attention to it until it got passed out of committee.

Mr. FRANK. Did you intervene——

Secretary MARTINEZ. I did not favor a trust fund, sir. And I said that clearly at the time of——

Mr. FRANK. Mr. Martinez, I understand that. Did you ask that the bill be killed and not come to the floor after it passed committee?

Secretary MARTINEZ. Sir, I talked with people who were concerned about the bill, who agreed with my position on it; and I believe the bill got killed——

Mr. FRANK. And asked them not to——

Secretary MARTINEZ. I did not specifically ask that the bill be killed. No.

Mr. FRANK. It got killed.

Ah, the passive voice. The passive voice has committed more errors and done more damage in this country than all the people ever created. And I must say I always take the passive voice as a nondenied denial.

Let me ask you what you thought about the Millennial Housing Commission.

Secretary MARTINEZ. I think the Millennial Housing Commission had some good recommendations. I think the Millennial Housing Commission also had a laundry list of things, all of which could not be accomplished.

But, you know——

Mr. FRANK. Were they wrong in principle, do you think?

Secretary MARTINEZ. I am sorry?

Mr. Frank. Were they wrong in principle?

Secretary MARTINEZ. I think in principle—and I am not going to comment on every single recommendation made, but I think it was well-intended people trying to look at and address——

Mr. FRANK. Well, because when you were here in February of last year, we asked about the housing crisis, and you said, "The

Millennial Housing Commission, I know, has been addressing this very issue. I look forward to hearing what they have to say.”

Apparently, you were disappointed in them, because they said, “The most serious housing problem in America is the mismatch between the number of extremely low-income renter to households and the number of units available to them. It has been more than 20 years since there was an active Federal housing production program designed to serve extremely low-income households.”

One of the principal recommendations was, quote, “Provide capital subsidies for the production of units for occupancy by extremely low-income households.”

I gather you disagree with that recommendation?

Secretary MARTINEZ. No, sir, I wouldn’t disagree with the ultimate recommendation. I think that our response in the HOME Program with $113 million of new money, 5 percent increase in addition to the——

Mr. FRANK. Well, you think a 5 percent increase is adequate. Here is what they said, “The most serious housing problem in America is the mismatch between the number of extremely low-income renters”—“despite persistence and growing need, it has been more than 20 years,” et cetera.

So your response to that, you think a 5 percent increase in the HOME Program—not all of which, of course, is used for production; it is a varied program—that seems to you an adequate response, to provide for the capital subsidies recommendation of the Commission?

Secretary MARTINEZ. The Commission also addresses the issue of local problems. It doesn’t indicate——

Mr. FRANK. I understand. Why don’t you talk about what I have asked you, and then you can raise the other things?

I am struck by this and I am struck by HUD’s criticism of local zoning and local regulation. I share some of those, and I think those who might argue that the Federal Government shouldn’t be trying to influence local zoning decisions are wrong. I think that is what we have a Federal Government for.

But I am interested whether you think, given the way the Millennial Housing Commission phrased this, a 5 percent increase is enough.

How many units will we get out of a 5 percent increase, how many additional units, Mr. Secretary, that ought to be a fairly clear response.

Secretary MARTINEZ. Well, I have it here, and I am going to find it for you in a second.

Mr. FRANK. Another train that got derailed?

Secretary MARTINEZ. 2.2 billion is going——

Mr. FRANK. No. Mr. Secretary, please answer the specific question. You said——

Secretary MARTINEZ. What is your question?

Mr. FRANK. I talked about the Millennial Housing Commission. They say there is a growing need, in 2002; your response is—one of them—a $113 million increase. How many units nationally will we get from $113 million?

I think it is clearly inadequate to what the Millennial Housing Commission said. You can disagree with that.

Secretary MARTINEZ. I am sure that if we are going to follow the recommendation of the Millennial Housing Commission, and if you are also an advocate of a trust fund for production of Federal housing, you find our budget inadequate.

Mr. FRANK. You are not answering a question—that is just a speech.

I am asking you a specific question: How many units will we get from $113 million? Is that a hard question? I mean, did nobody think of that before?

Secretary MARTINEZ. Five thousand five hundred from that additional 5 percent.

Mr. FRANK. I think that is a wholly inadequate response.

Let me just raise one last question. On the operating subsidy, I am puzzled. You say you have solved the problem. You have said that the $250 million shortfall that existed in the last fiscal year, you are going to take care of that by taking that money from the current appropriation. But the current appropriation, when you asked for it, didn't assume that 250 million.

Do we not now still have a $250 million hole? How did you fill that $250 million hole? You borrowed it from 2003 for 2002. What is that going to leave us in 2003?

Did you ask for enough in 2003? Did you ask for too much? I mean, how, when you got essentially what you asked for in 2003, are you able to take $250 million of that and fill the hole with 2002?

Secretary MARTINEZ. Sir, we believe that the accounting misallocations that had carried over for a number of years have been corrected. And I believe that for the year 2004, which is the current budget year that this hearing is on, public housing will receive——

Mr. FRANK. Mr. Secretary, please answer the question. I don't know why you don't want to answer the questions.

You have said that you have solved the $250 million problem. You have also said that you are going to take the money from 2003 and give it to 2002. Does that not mean that we are going to have a shortfall during 2003?

Secretary MARTINEZ. They are going to have 90 percent funding. That is the problem.

Mr. FRANK. So that will be the shortfall?

Secretary MARTINEZ. Exactly.

The CHAIRMAN. The gentleman's time has expired. The gentlelady from New York, Mrs. Kelly.

Mrs. KELLY. Thank you.

Mr. Secretary, you may recall that in last year's budget proposal, the administration suggested that HUD would redistribute the CDBG money. And the funding in the way the distribution level was done cut 35 percent out of Westchester County. It was the only county in the United States singled out for that kind of a cut or for any full—any full county singled out for a cut.

That is part of my district, and following the release of the proposal, the county executive and I and a county legislator came down here, and they gave testimony about the impact that would have on Westchester County.

I would like to get a better understanding from you, because I did not see in this year's budget any such proposal. And I would like to get a better understanding from you about whether or not this is something that HUD is still considering, or if this is something that I am going to have to continue to fight with you on.

Secretary MARTINEZ. You won the battle.

Mrs. KELLY. Good. I am glad to hear that. Thank you.

I want to ask you also about the HOPE VI program. You say on page 8 in your testimony that HUD is programmatically and financially committed to ensuring that the existing housing stock is either maintained in good condition or demolished.

I am concerned about the HOPE VI program, because I have listened to the figures you gave in your testimony, and you said that there were—you demolished 115,000 units and built 85,000 units. If my math is correct, that means 30,000 people were in units that got demolished that have no place to go. Those units were not rebuilt.

Now, I don't know if there were trackers used on those people, but I do know that the people that are living in public housing get lost in the system sometimes, and I am concerned about that.

I also am—I applaud you for the fact that you are talking about demolishing 15,000 units with this new budget and replacing that with 15,000 units.

I would like to ask you about whether or not we need to give you more flexibility with that HOPE VI program to make it possible for you to make sure that when we demolish a unit of Federal housing, we are able to replace it with better Federal housing for the people who truly need that housing.

Secretary MARTINEZ. Your point is precisely what we need to address now that this program is up for reauthorization. The current program does permit local housing authorities, as they go about development or redevelopment of projects, to not replace on a one-for-one basis. Some places do.

The District of Columbia, last year the mayor came up with a plan that would replace and put everybody that was in the project back into the project. But that is not always the case. And so currently local housing authorities, as they present their plans for HOPE VI revitalization, may or may not provide 100 percent relocation back into that project of people who live there. That is one of the things we need to address, because I agree with you; and it concerns me that when people that were living in a place now are relocated in what was supposed to be temporary, but at the end of the day they may not ever be able to come back into that project.

So while there are wonderful things that happen in communities, they are not always providing the kinds of number-for-number opportunities for federally assisted housing, and that is a concern, so one of the reasons, among others, why it was prudent at this time to stop where we were on HOPE VI and look to how we may do it in the future.

Mrs. KELLY. Do you need a piece of legislation that will help you with the flexibility? I don't know whether or not there is written into the legislation the flexibility that you need in order to make sure it is one-for-one, if we are demolishing one, we rebuild.

When you talk about relocation, some of these families obviously have not gotten relocated from at least what I have been in touch with some of the Federal housing across the United States, and there are families that have just gone through the cracks. We have got 30,000 here of units that never got replaced. We don't know, and I am sure you probably can't tell us, either, whether or not all 30,000 families got placement somewhere in that local community.

So, do you need a legislative—a piece of legislation here that would help you?

Secretary MARTINEZ. Yes, ma'am. First of all, Congress did away with the one-for-one policy many years ago, so we do not currently have that. Not all of the units that are demolished oftentimes are tenant-occupied, so that does provide some vehicle for them. And the people who are displaced do get vouchers, Section 8 vouchers, to go find housing somewhere else.

So I don't think we completely drop them from the radar, and they are not without assistance through the Section 8 program. But ultimately we do not have currently a policy or legislative authorization to do one-for-one deals. I think, frankly, flexibility is probably a good thing to provide local government, but we do need to figure out how we are diminishing the number of public housing units available in America as we go through HOPE VI. There is no question about that.

Mrs. KELLY. There is also no question that we need more affordable housing. We need to be able to have people qualify for that. So, certainly, I am sure that this committee would be glad to work with you if we can develop some language that would give you flexibility on that HOPE VI program. I hate to see it—I would hate to see it end, but I think we need to readdress some of the major issues, as Mr. Ney was talking about as well. Thank you very much.

Yield back.

The CHAIRMAN. The gentlelady's time has expired. The gentleman from Vermont, Mr. Sanders.

Mr. SANDERS. I thank the gentlemen from Ohio, and thank him for holding this hearing, and thank you, Secretary Martinez, for being with us today.

Secretary Martinez, as you know, today I am going to be introducing legislation to create a National Affordable Housing Trust Fund. I am happy to inform you that as of today we have 160 cosponsors. Last year we had 200. We hope to top that number this year.

Mr. Secretary, I am sure you will be happy to know that this particular legislation has been endorsed by over 4,000 national, state and local organizations representing every walk of life from homeless organizations to banks, because they all understand that we have a major housing crisis in this country and we need serious legislation to address that crisis.

The National Affordable Housing Trust Fund would triple affordable housing construction in the United States, paying attention to those people most at need, to veterans who are sleeping out on the streets, to children who are sleeping out on the streets of this great country.

It would pay attention to the 4 million American families who are paying 50 percent of their limited incomes on housing. It would pay attention to those families who are working 40 hours a week and sleeping out on the street.

Now, let me address some of the issues that have come up already today. You say we are addressing the problem. We are working on the home program. Mr. Franks flushed you out, and in the midst of the serious housing crisis you were talking about building at most 5,000 units of housing. Frankly, given the severity of the crisis, you know and I know that that is a pathetic number, not serious about addressing the real crisis.

Our proposal addresses 150,000 new housing units, you address 5,000. Now, you are an expert on the subject. You probably agree with me that 150,000 units is significantly more than 5,000. You say, a few minutes ago, well, I don't want the Federal Government getting involved in national affordable housing trust funds, let the local governments address the issue of affordability.

I am happy to tell you that the U.S. Conference of Mayors strongly supports the National Affordable Housing Trust Fund, because they understand that with State and local governments, tens of billions of dollars in debt, that the Federal Government is going to have to play a role. So when you talk about local control, yeah, we have got the mayors behind us.

You just say, well, the FHA surplus, Mr. Ney asked you a question about the surplus. And you say, well, we have got to protect the safety and soundness of the surplus. The latest actuarial analysis by Deloitte & Touche for 2002 projects an excess, let's be clear about this, an excess above the 2 percent reserve needed for safety and soundness.

Nobody here wants to impact safety and soundness. Their reserve above that level is 34 billion between now and 2009. So let's not fool the people. We want to preserve safety and soundness. Our legislation does that.

You say, well, if we are going to use some of that money, let's use it to help poor people. Well, what do you think our legislation is doing? It is building affordable housing for the poorest people in this country.

Now, Mr. Frank mentioned to you a moment ago the quote from the National Journal, and last year the National Journal says that, and I quote directly, The House Financial Services Committee last year drafted a bill that established a Housing Trust Fund. Martinez opposed the fund, but HUD was out of communication throughout the bipartisan drafting process and the measure passed at a committee vote. Only then did Martinez pay attention. We got behind the "8" ball. He admitted calling on Representative James Walsh, chairman of the House Appropriations Subcommittee. Martinez stopped the markup and got another committee vote scheduled, successfully killing the bill. After that episode, Martinez fired his head of Congressional Affairs and reshuffled his Congressional staff. With that shake-up and a lot of Republicans grateful for his campaign assistance, he may get a chance at redemption on the Hill, end of quote.

If you want redemption, why don't you work with us not to kill serious legislation, but to help us solve the problem that is plaguing millions of Americans. Can you respond to that, sir?

Secretary MARTINEZ. The most recent national data available on affordability of rental housing nationwide comes from the 2001 American Housing Survey. As of 2001 the number of unassisted very low income renters that pay more than half of their income for housing was .47 million——

Mr. SANDLIN. What was that number?

Secretary MARTINEZ. 4.7 million. This represents 13.9 percent of all U.S. renters and 4.4 percent of all U.S. households, which is the lowest share observed in the 23-year history for which comparable data is available.

Mr. SANDERS. I agree with your figures. 4 million——

The CHAIRMAN. The gentleman's time has expired.

The gentleman may respond and then we'll move on.

Mr. SANDERS. If 4 million Americans, you have just told us, are paying 50 percent of their income for housing, do you think that building 5,000 units of housing is going to solve that problem?

Secretary MARTINEZ. No, sir, I don't. But the HOME Program, fortunately, does a whole lot more than that. The HOME Program, over the history of that program, as of February of this year has committed 308,500 units of rental housing, has 288,516 homebuyer type housing, and has 140,170 units of existing home ownership, so a total of 737,186 are committed, 453,515 have been completed.

The HOME Program is a very successful program.

The CHAIRMAN. The gentleman's time has expired. The gentleman from California, Mr. Miller.

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman. It is good to have you here, Mr. Secretary.

Secretary MARTINEZ. Thank you, sir.

Mr. MILLER OF CALIFORNIA. Some people want to argue that government funding is a way to resolve all the housing needs in this Nation. I agree there is a need for government funding, but in many cases if government would get out of the way the housing would be provided. I was in the building industry, am in the building industry still, for over 30 years, and I support your attempts to reduce regulatory barriers that stop builders from being able to basically provide housing that this Nation needs.

And I applaud your commitment to working with State and local communities, because that is where we have to go to resolve the problems. We have a limited available housing stock in this country. Nobody ever argues that.

But yet we focus on a limited part of the housing stock. We talk about Section 8 vouchers, which there is a need for Section 8 vouchers. But in California you can't find a place to use a Section 8 voucher because there are no available units to rent. Until we deal with regulatory barriers in a move-up market and remove many barriers that allow people to build reasonably priced homes in an affordable move-up marketplace, we are never going to find a place to put all of these people.

So I would like to hear a little bit on your reducing regulatory barriers initiative—how do you think that should be approached.

Secretary MARTINEZ. Well, we believe that it is unquestionably part of the problem. You know, in your home State I know some communities have like $118,000 in fees and regulatory costs before a house or any sort of a home structure gets constructed.

Mr. MILLER. Each year it takes more and more time to get your applications processed.

Secretary MARTINEZ. Which time in the construction business is money. So the more it is delayed the higher cost of financing and everything else that goes with it. It is unavoidable that that is something that we must deal with. So what we are doing is providing a framework for local governments to come to us to see how others' best practices, how they are eliminating regulatory barriers to have a place where they can all come through the Internet, to be informed, to find out what the barriers to building housing may be, and then to continue what was began under Secretary Kemp when he was HUD Secretary, which is to bring to date a study on affordability, which clearly showed that the root cause of the affordability crisis in America is local regulatory barriers, a NIMBism to construction of affordable housing.

Mr. MILLER OF CALIFORNIA. And Federal also, laws that we pass.

Secretary MARTINEZ. Sure. So the combination of the two.

Mr. MILLER OF CALIFORNIA. I would strongly encourage you to be very aggressive in this area because it is very needed. The bulk of my friends are in that industry. They are trying very hard to be able to provide housing. It is becoming more and more difficult. The other issue I would like to talk to you about is brownfields.

I know you think that HUD should share in responsibility of redeveloping the Nation's blighted areas. You have talked about that and we have had personal conversations on that vein. In the past, the BEDI Program that HUD administers has been somewhat difficult to take advantage of because of the Section 108 requirement and the obligation of CDBG funds. There has been talk about shifting oversight to EPA, which I strongly disagree with, because they only deal with States, they don't deal with the locals, and then the petroleum, which is probably 80 percent of the sites that we might be able to deal with on there.

I would like to hear your opinion about the benefits of changing the oversight about creating more flexibility, which we are trying to do through a bill that I have put into the committee and the chairman has helped, and Chairman Ney has also. And it is giving you more flexibility in actually being able to use those BEDI grants and completely redevelop these sites.

Secretary MARTINEZ. We liked your approach. We think that creating more flexibility and opening up more opportunities for us to do what we would do with that money is certainly a move in the right direction. It was felt by the administration that all of the brownfields redevelopments should be in one place. At least it was felt——

Mr. MILLER OF CALIFORNIA. Probably because it wasn't working.

Secretary MARTINEZ. Exactly. We were underutilizing the BEDI Program year after year. We were not getting out the money rapidly enough for it being utilized well enough. So under those circumstances it has been placed under EPA, where a tremendous commitment by the administration has, I think, more than doubled the funding available for brownfields redevelopment.

So we look forward to the process as we go forward.

Mr. MILLER OF CALIFORNIA. The problem by shifting it, as you know, where you work with locals, the EPA only works with the States. And where you can deal with petroleum, they won't deal with petroleum. So we are taking and eliminating a tremendous number of sites that we could actually revamp and put into good use, and they are never going to be done. So I am pushing the bill, and hopefully we are going to be able to get that to you.

But I would strongly—and you and I have had these discussions privately—encourage HUD to look at Section 108. Yes, we need to look at the inner city. But we need to look at that move-up marketplace, too, because we can talk about building all of the housing units that you can dream of that Section 8s can qualify for, but unless we move people out of Section 8 into the next level of independence where we can open up the availability of Section 8 housing, until we do that, we are never ever going to meet the demands of low income people that are placed on government.

Secretary MARTINEZ. Thank you.

The CHAIRMAN. The gentlelady from New York, Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman, and I would like to echo some of the points that Gary Miller, my colleague, had mentioned, particularly on brownfields, and we have worked together in a bipartisan way to build more flexibility into that program. It is one that could benefit and rejuvenate our urban and rural areas, and yet all of the money was zeroed out. And I feel strongly, as he does, that it should continue with the modifications that build in more flexibility.

But I really want to talk about public housing, because New York City has the largest public housing unit in the Nation, and it is extremely successful. It provides housing to 400,000 families, and we have probably that many on a waiting list trying to get into public housing.

It is a huge success, and over 200,000 are served by Section 8. So the proposed 2004 budget reductions are critically important to the residents that I represent. And the estimated $44 million reduction, building on top of the 2002 reduction, is a total of 80 million in lost capital funding over the last 2 years, and this cut doesn't mean that fewer people are going to be served, the people are there that need to be served.

So if the capital money is not there, then the units will fall into disrepair and maintenance will have to be cut. So this proposed cut is very problematic, I believe, to maintaining the housing stock that we have in this country. Many of our colleagues talked about measures to improve the availability of capital, but cutting the capital budget is going to really make it very hard for our public housing authorities across the Nation to provide the level of maintenance that is necessary.

And then this builds on top of the well-documented $250 million shortfall. Again, this hurts the existing units and operations, and then this also builds on the administration's successful effort to do away with the drug elimination program in 2002. Many people had complaints about it, but in New York it was a huge success. It put police officers into public housing, and the public housing units had a greater drop in crime than in the overall city.

And as you know from the papers and elsewhere, local funding and State funding is not an option. New York has this special problem of 9/11. But localities and States across the Nation all are facing budget woes. And the Federal Government needs to be there, not only for the new housing but to maintain the public housing that exists.

So my question is, would you at the very least support a supplemental appropriation to make up for the $250 million shortfall in the operating fund? The cuts with the drug program, and by the way when they cut the drug program, they said we will make up the money elsewhere. They just didn't want the drug program. But what happened was that those moneys were lost. Those moneys at least should have stayed in the public housing coffers for maintenance and other things.

So we are facing a dire situation for public housing across the Nation, and it is very important. It has been a success and we want to continue it.

Would you support a supplemental for the lost 250 million in operating?

Secretary MARTINEZ. First of all, let me say that the 2004 budget for public and Indian housing by the Department is a request which is $2 billion higher than the enacted amount for 2001 for public and Indian housing.

The operating subsidy problem which arose as a result of bookkeeping problems is going to result in a funding of about 90 percent of the operating subsidy. As I said earlier, 90 percent operating subsidy funding levels is fairly in keeping with a number of other years, when like in 1999 only 92 percent was funded, or in 1996 when only 89 percent was funded.

We believe that the commitment to continue to improve public housing is one that ought to be maintained, and the Department of—my Department does not have really the—as is traditionally the case with other HUD Secretaries and other administrations to agree with you and authorize a supplemental appropriation. That is really something that OMB has to be the one to ultimately make decisions on.

Mrs. MALONEY. Well, then my numbers come from the New York City Public Housing Authority, and they are saying that these cuts, that they are well over 10 percent, they have no way to make up for these cuts.

And you mentioned that any request for funding will come from OMB. Well, OMB will listen to what you have to say on the HUD budget. If you support making up the $250 million shortfall, and if we don't make it up, then we are really people—poor people in public housing are the ones that are going to pay for it. It seems—why should they suffer because of a bookkeeping problem that someone confronted?

Secretary MARTINEZ. What I am saying is that the funding level of 90 percent is not without historical precedent, and in fact between 89 and 100 percent, somewhere in there, has been the funding levels over the last 10 years.

So a funding level of 90 percent, we do not believe for 1 year—last year we funded it at 100 percent. Next year we fully anticipated funding it at 100 percent once again. A 1-year funding shortfall in that operating subsidy of 10 percent will not do great harm to the programs in the way they operating public housing.

Mrs. MALONEY. It is more like 70 percent, according to the New York City Public Housing Authority.

Secretary MARTINEZ. No.

Mrs. MALONEY. During the boom years, that was one time. Now we are facing this terrible recession across the whole country, not just in New York. New York has the 9/11 problems on top of it.

The CHAIRMAN. The gentlelady's time has expired. The gentleman may respond.

Secretary MARTINEZ. Let me be very clear. It is not a 70 percent funding level. That has been clarified beyond any question, that it will not be 70 percent funding level. It will be 90 percent funding level.

Mr. FRANK. When?

The CHAIRMAN. The gentleman from Texas, Mr Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman. Thank you, Mr. Secretary for your testimony here today.

Recently I met with some constituents of mine who operate multi-family housing in Dallas, Texas. They tell me that it costs 20 to 30 percent more to operate Section 8 housing than it does market housing. Obviously that drives up costs, gives operators disincentives to get involved in the program and gives fewer housing choices to the working poor.

Now, the administration is proposing block granting this program. Although I am new here, I have discovered there are block grants and then there are block grants.

In your opinion, will the administration's program take care of this particular problem?

Secretary MARTINEZ. We believe, sir, that the administration of Section 8 at the State level with block granting and ensuring that the money remains available for funding of Section 8 and for affordable housing will be a way to address those very problems.

Another problem that will be addressed with the block granting of Section 8 is the problem that would be of interest to Ms. Waters, because she mentioned the problems with, you know, the Public Housing Authority in Los Angeles and the fact that they needed more Section 8 vouchers. She will be surprised to know that last year we recaptured $78.2 million from the L.A. Housing Authority on Section 8 vouchers that they couldn't put out on the street.

Our take on this is that that is a disservice to the people of Los Angeles, just like a 30 percent tax to do business with HUD is not a good service to the people of your State. We should in this block grant proposal facilitate the ability for those vouchers to get out to the people that need them, and for people who construct multi-family housing to want to be in the business, the States under the TANF proposal are handling the welfare of the same customer base that Section 8 deals. We believe that the TANF proposal will enhance the State's ability to deal with this population of people who need government assistance and that the States are now participating in their assistance, whether it be medical care or other needs, and we want to add housing to that.

Mr. HENSARLING. Mr. Secretary, if I did my math right, the administration is proposing block granting roughly 60 percent of the HUD budget, I believe, 17 billion out of roughly 31.3 billion. If block granting is such a good idea, and this particular member thinks it is a great idea, why are we stopping there?

Secretary MARTINEZ. Well, sir, perhaps we shouldn't. And we believe that in addition to providing the States, by the way, with the ability to manage this program, we are also going to give them the management moneys available to manage it so this is not an unfunded mandate to the States. It is the kind of thing that we think would be very successful and has been successful in the HOME Partnership Program and a lot of other—the CDBG Program, frankly, is one of the most successful things that HUD does, and that is a block grant program as well.

So we—no, I don't know that necessarily we should end that. Dealing with over 2,600 individual housing authorities on the Section 8 program is a whole lot more complex than it would be to deal with the 50 governors or the 50 State entities that would manage the program.

Mr. HENSARLING. I am always convinced that government can find ways to do more with less. Two of my colleagues, I guess within the context of the HOPE VI program and regulatory relief, asked you about things that Congress could do that I think would help you achieve the goal of doing more with less.

So I would like to make sure that you have an opportunity to tell this committee what do you think that Congress could do to make HUD more efficient that would actually allow us to help the working poor even greater?

Secretary MARTINEZ. Well, I tell you one thing not to do, is to create a new housing trust fund that would be administered at HUD and give us yet another new program to administer. But find those programs that work, like the HOME Program, and fund it to whatever level you think it is appropriate to meet the housing needs of America.

That is the right way to do it, because that program is already in effect, it already works, it has an infrastructure through which to operate. It should not be now loaded up with yet another new program.

Mr. HENSARLING. Returning back to the Section 8 program in the remaining time that I have, your own Policy Development and Research Division showed an alarmingly high number of approximately $2 billion in subsidy overpayments.

Now, I am new here, but $2 billion still seems like a very large number to me. I know that you are familiar with this issue and this problem, but can you tell me the steps that HUD is taking now to fix the problem of fraud and overpayments?

Secretary MARTINEZ. We are very focused on that problem. We have a task force working right now with the States, and we—Congressman Sessions introduced legislation which is going to give us one new tool which is going to give us access to the new hires information. We are then going to be able to computer match up the information on new hires and salary levels, so that we can then easily and correctly verify the right levels of subsidy under the Section 8 program.

We believe that that legislation will help us to make sure that we do not continue what has historically been, you know, when I came to HUD, and I see that we are mistakenly paying by a billion dollars a year, and nobody seems to be concerned about it, we have been very diligently addressing this problem since I arrived at HUD. I am happy to say that we are coming to some solutions, one of which is the legislation that Congressman Sessions has introduced.

Mr. HENSARLING. Thank you. This member is concerned.

Mr. NEY. [presiding.] The Chair now goes to Ms. Velazquez.

Ms. VELAZQUEZ. Thank you.

Mr. Secretary, on January 15th, you issued a press release, and I am going to quote you: Today's correspondence to the PHAs' executive directors clarified that the funding level was a temporary estimate until HUD's requested 2003 budget is finalized by Congress, at which point HUD intends to fund PHAs' 2003 budget at or near 90 percent.

It has been 2 weeks, Mr. Secretary. Can you please tell us for the record when the PHAs will get their budget increases and if they will be retroactive?

Secretary MARTINEZ. Within 4 weeks. They will be funded at that point, because it does take time from the time of an appropriating budget like you have just done 2 weeks ago for us to be able to cycle it into our system and get the money out to the PHAs.

Mr. FRANK. I am distressed by that if we are talking about another month after the 2 weeks. They knew this was coming in January. I don't know why they weren't ready. So a month and a half after the budget passed, these are people in great distress. Sorry to hear that.

Secretary MARTINEZ. Let me make a clear answer to that. We are waiting for submissions of budgets from the PHAs. They have to submit their budgets to us so that we can then fund them. So our inability to fund it quicker, in many instances, relates to their inability——

Mr. FRANK. Well, then how did you fund 70 percent? That doesn't wash. If you can fund them at 70 percent—if you don't know what the budget is, how do you know what 70 percent is? If you know what 70 percent is, I will give you an easy way to figure out what 90 percent is. It is called arithmetic.

Secretary MARTINEZ. I am going to ask, with permission from the Chair, Mr. Michael Liu, who is Assistant Secretary for Public and Indian Housing, to give you the details on those technical aspects of how that is done.

Mr. NEY. We will add an additional minute on to your time.

Mr. LIU. Michael Liu, Assistant Secretary For Public and Indian Housing.

This is one of the few programs where the Federal Government is obligated to provide dollars for the operations of an entity, but prior to that entity being required to submit to us their budgets.

Now, that was a system put in place some years ago. We are working to change that system. It will require a change in rules and regulations. So that will take time. But currently, we only have the budgets for those housing authorities which started their fiscal year in January 1. We do not yet have the budgets for the housing authorities for the second, third and fourth quarters who start their fiscal years during that time frame in the future.

Therefore, it does take time for us to be assured that we have the data, so that we can proceed in a reasonable fashion. Now, this has to change. This is not a good practice. This will change.

Ms. VELAZQUEZ. Excuse me. Are those PHAs that submitted their budget requests to you, getting 90 percent?

Mr. LIU. They just submitted their budgets on March 3rd. We will be able to process the information, and with the additional moneys provided by the Congress in the 2003 budget for an operating subsidy and a number of other items that we now know that we will not have to fund, we will be able to fund those housing authorities at or near 90 percent.

Ms. VELAZQUEZ. Mr. Secretary, you stated that your budget will create 5,500 units through the HOME Program. As my colleagues have established, our housing crisis goes much deeper than that, yet your budget proposal potentially creates more problems than it solves.

In fact, your proposal to block grant Section 8 opens the door to drastic changes to the implementation and intent of the program such as allowing States to impose lifetime limits similar to those that have been proposed in Philadelphia and Delaware. You claim to already be concerned about the tenants who have been displaced under HOPE VI. What guarantee can you offer that your block granting proposal will not do the same thing?

Secretary MARTINEZ. Well, clearly our block granting proposal is to work with the States to ensure that people are provided places to live, not to just allow them to throw people on the street.

But I want to tell you that we recapture every year money from the Section 8 program. In New York, from the New York City Housing Authority, we have recaptured $88.9 million in Section 8 moneys. That is moneys that we hope, with State administration, and Governor Pataki is very eager to look into the program and is supportive of it, that we could perhaps find better ways of getting the money to the people who need it.

So the idea here is not either to not fund people, is not to not find a place for people who need a place to live, to have a place to live, but it is frankly more compassionate, I believe, to find a way that really works than to believe we are doing it all right the way we are doing it now, but every year recapture a billion dollars that doesn't go to people who need housing.

Ms. VELAZQUEZ. But Mr. Secretary, you haven't answered my question regarding the localities, such as Philadelphia and Delaware where they want to impose lifetime limits on Section 8.

Secretary MARTINEZ. All of the details of this block granting proposal have not been worked out. You have it within your power and the legislation that you would enact in order for this to become law to define the terms by which the States will be block granted the money.

It is my view that those who fear that this money will be diverted to other uses really are misplacing a fear, because you just put it in the legislation, it will be for use in housing. If you believe that terms limits or lifetime limits or whatever the limits may be are inappropriate——

Ms. VELAZQUEZ. Don't you?

Secretary MARTINEZ. ——then that should be part of the legislation.

I believe everyone should be given an opportunity to be helped when they need help. I think everyone should be encouraged to self-sufficiency, because I don't believe anyone living in government dependence really finds the opportunity to fulfill their dreams.

Ms. VELAZQUEZ. Let me tell you, Mr. Secretary. Some of my constituents on the Lower East Side of Manhattan were just notified of the fair market rent increase, bringing the HUD-approved FMR for the two-bedroom apartment to $2,750. At that rate a family will need to earn in excess of $91,000 a year to achieve the accepted standard of paying 30 percent of their gross income on rent. Worse yet still, two parents, both minimum wage earners, will have to each work 13 hours a day, 365 days a year merely to cover rent. Given these conditions, where do you expect low income families to live when they reach the end of their lifetime limits on Section 8 housing assistance?

Secretary MARTINEZ. Anyone who needs housing the Section 8 program is there for them. Over 60 percent of the HUD budget goes to Section 8 housing. I am not suggesting to you that a family who needs rental assistance because of their life circumstances should not be given assistance.

I am also going to tell you that for us to set minimum rent standards out of Washington for New York is not the best way for the Section 8 program to run, which is yet another reason why block granting it to the States would allow the kind of local flexibility to set minimum rent standards that would give the program the benefit that that family obviously would need from the program.

Mr. NEY. The gentlelady's time has expired.

Mr. Renzi.

Mr. RENZI. Thank you, Mr. Chairman.

Mr. Secretary, thanks for your testimony. And more so, I wanted to thank you from the people of Arizona for your numerous visits to Arizona.

The focus and concentration that you provided to help revitalize some of the poorest sections of our State, particularly our barrios in South Phoenix, which I know you are aware of and have visited, and particularly on your watch, I want you to know that we got some figures in this week. We had a visit from the tribal chairman of the White Mountain Apache, a community of almost 5,000 Native Americans, and as the representative of the largest Native American population in America, I want to thank you for White Mountain and the success that we have seen there under our Section 184 program. We have built, in the last 24 months, over 300 homes in a community of less than 5,000 people.

And what I need help on, I need to understand and be taught, since I am just a snot-nosed freshman, is how we move the success that we see at White Mountain and the Apache to the Navajo Nation, how we are able to better communicate the programs, the success stories, home ownership, and I know the credit subsidies that we are seeing at White Mountain up to the Navajo Nation, which is the largest of our Native American populations, and would be interested in your comments in that, along that line.

Thank you, sir.

Secretary MARTINEZ. Congressman Renzi, I had the privilege of meeting with the President of the Navajo Nation this week, and they came to talk to us about some of the programs that they are doing within their property and also to talk about how we might work with them more closely in the future. We do have a very aggressive Indian Housing Program at HUD. We are proud of the work that has been done over—on a bipartisan basis over many administrations.

We look forward to working with them to improve what is probably the most substandard housing of any Americans, which is the Native Americans, and we need to continue to work with them, just like we have done with the Colonias Initiative, which is part of what you mentioned in your State. We also need to work with our Native American people to make sure that safe and decent housing is not just a dream but a reality for every American.

Mr. RENZI. Thank you.

Mr. NEY. The gentleman, Mr. Scott.

Mr. SCOTT. Mr. Secretary, good to have you. I want to ask you questions about HOPE VI. I am really baffled by this administration's approach to HOPE VI and your willingness to pull the plug on such a worthwhile program. And I have heard you speak about self-sufficiency and compassion, and I am here to tell you this. This conservative compassionism is being misplaced if you do away with this program with a meanness that is just—aching at the hearts of many people across this country.

This HOPE VI Program embodies all of the basic conservative economic principles that you advocate, that this administration does; self-sufficiency, privatizing.

Let me just tell you about my State of Georgia and the success that we have had. Our Atlanta Housing Authority has reduced its work force by 53 percent because of HOPE, the very things that you are advocating. It has increased the number of families that are served by 17 percent. It has privatized the management of 100 percent of all of its properties, got government all of the way out of it.

It has leveraged over $184 million in Federal grants, including three HOPE VI grants totaling 113 million. It is $2.5 billion in terms of local economy. When Ms. Waters asked you the question, and you commented, and you said that the housing authorities were not meant to be developers, well, in Atlanta our housing authority under Renee Glover's directorship of HOPE VI has attracted private investment to the tune of more than leveraging over $150 million. It has become the gold standard. And for you to pull the plug on this program, it is like cutting a man's legs off from underneath him at the kneecaps and then condemning him for being a cripple. It is just downright mean.

I have a lot of respect for President Bush. I have been supportive of him on many of his programs. But I am asking this administration to don't pull the plug, don't cut these folks' legs off. It is too valuable a program.

Now, many of us in this committee are working on legislation to reinstate HOPE VI. We realize that it is sunsetted. I want you—you seem to be a very compassionate person. You are the head of an agency that is probably the spear carrier for that phase of the administration's approach called conservative compassionism, and you are a very honorable man, and I would like for you to take the leadership in conveying to this administration, as the Housing Secretary, don't pull the plug on this. Work with this committee. Work with us to help us reinstate HOPE VI.

And if he has any questions, all he has to do is come to Atlanta, Georgia, to see the model of how this works. Could you do that?

Secretary MARTINEZ. Well, first of all, let me say that I have no quarrel with what you say about HOPE VI. I know Renee Glover has done a fabulous job in Atlanta, and I took the President there last June. We were there. We saw what HOPE VI has done in some of the areas of Atlanta. I can't remember now the name of the specific project we visited, but we were there. We have seen the——

Mr. SCOTT. Centennial Homes, I think.

Secretary MARTINEZ. Probably was. Atlanta still has $140 million that they haven't spent of current HOPE VI funding moneys. We have got to find a better mechanism to do it. I don't think the argument, Mr. Scott, is in any way with the validity over HOPE VI program or the good things that it has done. What I believe we must do is to find a way in which we can ensure that the displacement issues, ensure the way in which it is administered in many ways is as successful as we can make it.

It is up for reauthorization. We are in a difficult budget cycle. We do have a lot of unspent money still in the program. This frankly was felt to be an area where we could take a good look at where we are and where we might want to go before we just fund more money, where money has already—where money has not come out of the pipeline.

So I don't disagree with you. I appreciate the passion that you exhibit for a program that helps families. I have seen it in my own community in Orlando, Florida. It is a good thing. But it breaks my heart when I see that Hampton Park in Orlando, that so darn few people that used to live at Orange Villa, which is what it used to be called, are now moving into Hampton Park.

Something isn't right about that equation. So we can work with it to ensure its future success, but I agree with many of the things that you have said, and I will work with you as we look to the future and how we might come up with something even better than the current HOPE VI.

Mr. SCOTT. I appreciate that.

Mr. NEY. The time of the gentleman has expired.

The gentlelady from West Virginia, Mrs. Capito.

Mrs. CAPITO. Thank you, and welcome, Mr. Secretary. Thank you for your testimony. I have a question on the block granting to the States for the new program, the new initiative. I met with some housing authority members several weeks ago and they have great concern about this.

The question they asked me is, if the money is block granted to the States instead of directly from HUD, will the State then be entitled to 10 to 15 percent of administrative costs and would that then translate to fewer dollars actually being in the hands of those who need housing? In your statement, you mentioned that $100 million would be available to assist States with the effort in the transitional. Is that $100 million on top of what we are appropriating, what we would appropriate in that program, or is that in fact administrative costs?

Secretary MARTINEZ. It is an additional $100 million in order to transition the program. Housing authorities currently receive a management fee for managing the Section 8 Housing Program. If the management of Section 8 housing were to then be with the States, the management fee for the Section 8 program should be with those that are managing the program.

Mrs. CAPITO. It is reasonable to assume, though, that the housing authorities then would not have any kind of management fee involved in that as well? Would it be——

Secretary MARTINEZ. If they are not managing Section 8, they then would not have the management fee that goes along with the management of Section 8. So that is correct.

Mrs. CAPITO. I had another question about the elimination of the brownfield initiative. In my State of West Virginia this has been an important initiative. Can you explain why the program was eliminated, and if this—does this involve shifting all of the brownsfields responsibility to the EPA, and how do you feel about that?

Secretary MARTINEZ. That is precisely what it means. It is shifting the responsibilities to the EPA. Not having been a Washington bureaucrat for too long, I did learn one thing, which is you always try to hold on to what you got, but you don't always succeed.

So it is now with the EPA. It was a $25 million program with HUD, so it is not a very large program and in fact difficult to utilize, as we pointed out earlier. The administration has funded in excess of $220 million for brownfields remediation, and a very strong commitment has been made, far in excess of what was being budgeted traditionally for brownfields remediation. So the commitment is there. The shifting of priorities does put it under EPA, where all brownfields programs would then be housed in one entity.

Mrs. CAPITO. Finally, I just kind of have a general philosophical question. I have kind of heard the repeating theme of money being left on the table, whether it is at the housing authority level, that is meant for well-intended programs and meant to provide the housing that we so desperately need.

How much money is really left on the table? I mean, I know you can't say percentage wise, but is this a large problem?

Secretary MARTINEZ. It is a large problem, particularly in the Section 8 program where every year over a billion dollars in recaptures comes back, meaning that whether it was L.A. With 78 million, or whoever, which one it may be, many housing authorities cannot get the money out the door on the Section 8 voucher program.

It is a problem sometimes in the spend-out rate of other programs, and in HOPE VI it has been a problem. We have funded and funded and funded programs in places like Chicago, but very little has come out of the ground. New Orleans, because of horrible mismanagement by the New Orleans Housing Authority, is just now under Federal Government management and beginning to see the first things come out of the ground for what had been HOPE VI's for many years.

The unfortunate part, particularly in New Orleans, is that the demolition took place, but the rebuilding hasn't taken place. So in other words, it exacerbates a difficult housing problem for people who live in public housing.

Mrs. CAPITO. Thank you.

Finally, I would like to applaud your increase in funding for the housing counseling initiative. Our State is very pleased with that and thinks that it will go a long way towards future hope ownership for many West Virginians.

Secretary MARTINEZ. I appreciate it. I also want to point out, which I failed to mention in my opening remarks, that the voucher program for the 2004 year budget request, which we are on here today, we are requesting more than a $990 million increase over the 2003 budget allowances.

Mrs. CAPITO. I yield back.

Mr. NEY. The gentleman from North Carolina, Mr. Watts.

Mr. WATTS. Thank you, Mr. Chairman. And welcome, Secretary Martinez. Appreciate you being here today. I am sorry I have had to be in and out, but we are in the middle of a markup in Judiciary, and I have been getting a running summary of your comments about HOPE VI.

And I won't go as directly at you as my colleague Representative Scott did because it sounds to me from the summary of what I have heard of what you have had to say you believe HOPE VI has served a useful purpose and that it is a program that is worth continuing. That, I would have to say, is contrary to some language in the President's statements that seem to suggest that it, the HOPE VI Program, has achieved its objective, and I am happy to see that you have tempered that.

I don't think I have ever seen quite as much Democratic support for continuation of what was a Republican program. HOPE VI was a Republican program. I mean it. So it is not as if this is one of the programs that we are defending from our own bosom, this is one of you all's programs that happens to have worked very well despite some of its shortcomings.

So I am not going to dwell on that. It seems like you are going to take a pause, you are going to try to keep this program going in some form. What I am interested in is in what form and when we might get some specifics on this new proposal that the President says he wants to replace HOPE VI with.

Because if we are going to have any kind of continuity here—the funds run out this year. We need to have—if we are not continuing HOPE VI in its current form, we need to have whatever is right behind it ready to go and gear it up, and I haven't seen any specifics on it. The couple of things I have seen on it suggest that there might be an 80 percent guarantee, Federal guarantee of development. You might be able to pledge Section 8 vouchers as security for the loan. But it seems to me that until we have details on the specific plan that you are talking about as a successor to HOPE

VI, we can't move forward in doing our job of trying to evaluate and shape that in a way that helps you make it better than what HOPE VI was.

So my question to you is when are we going to get these kind of specifics? Do you have a working group working on those specifics now? When can we expect the fleshed out details of what you are planning or what you all would like to replace this with?

Secretary MARTINEZ. We have been internally studying the issue for some time. Senator Mikulski suggested yesterday perhaps a task force that would also include some of the people in the housing field who have commented on HOPE VI, who have written analyses of it. Some of it was greatly supportive, but also with some improvements or criticisms or commentary on it.

So I think we will continue to evolve and think on it. In addition——

Mr. WATTS. How long?

Secretary MARTINEZ. Well, I understand—what she would like to do is have it be before markup. I think that is probably a good time frame to think about. But I also will tell you this on the way that the program operates is that no one was applying for a HOPE VI right now. It is going to be effective, because the cycle will come over next year. We will still have another funding cycle to go and 50 percent of the money is still to be realized. So——

Ms. WATERS. I understand that. But that was always the plan. I mean even you all say in your comments about HOPE VI that you expected at least a 5-year—I mean, most of these things are massive projects. So for you to come and say that a criticism of the program is that people are being methodical and they are moving the moneys through the pipeline and doing this in a way that doesn't create more distressed public housing but revitalizes communities, that is a long-term project.

Secretary MARTINEZ. One of the things we have done actually in the grant process is to ensure that these grantees that are getting grants have got a program ready to go. In the past I think oftentimes grants were made to people who had an idea and a dream, but hadn't really pulled the deal together.

Now, we are asking communities——

Mr. WATTS. We put that in the legislation that we drafted yesterday.

Mr. NEY. The gentleman's time has expired.

Secretary MARTINEZ. That I think is a key factor. We want to work with you. We want to talk with you about whatever legislation it is that you are planning. We have our own set of ideas that are germinating within the Department. There are people out there in the academic community and others who have had, over time, analyzed the issue of HOPE VI.

So I look forward to a continuing dialogue on this and Congress will have the timing to dictate how it will handle it in the future.

Mr. NEY. The gentleman's time has expired. The gentleman from New Jersey, Mr. Garrett.

Mr. GARRETT. Thank you. Just before I begin, you know, I appreciate your comments with regard—and I am on the same page as far as turning some of those decisions back, the block grant approach. I was in another hearing in a different agency, and I raised the same sort of questions on their responsibilities. And I said, why aren't we turning more of this over back to them, the local decision makers? And fortunately the answers weren't quite the same. It is like, well, we can make those decisions a lot better here. And we are more confident here in Washington making some of these decisions. And I think whether it is that other issue or it is the housing issues, it is the people who are going to either benefit or suffer from it that are going to be able to make the decision best, and people on the State level are going to hear about it the first on a daily basis more so than us folks here. So I am on the same page.

I want to turn away from what you have been talking about, the HOPE and Section 8 issues, just ask you a couple of other questions. A while back, back in 1992, Congress passed some legislation concerning the government-sponsored enterprises, the GSEs, Fannie Maes and Freddie Macs, and this legislation required that HUD review all of their new programs that Fannie Mae and Freddie Mac considers before they go forward and implement them.

Now, my understanding just looking over the materials here and yesterday, in the past decade, despite a number of new products, and I just have about a dozen of them, I don't know whether there is more, they have—in none of those cases did Fannie Mae or Freddie Mac come before HUD for approval.

And as far as I can see here HUD has never exercised any statutory authority in this regard. I know you want to—you are charged with implementing the law, following the law. What is it that HUD is going to do to ensure that a meaningful and mandatory preclearance mechanism is not only is established, but is carried on?

Secretary MARTINEZ. Well, sir, I think I will comment to you by saying that this is but a number of other issues that I have faced at HUD that had long lingered without attention, just like the accounting problem with the operating subsidy for public housing. We are correcting it and fixing it. The issue of the GSE and new product preauthorization was never addressed by HUD. No one ever drafted the regulations or addressed how that should be done or created a mechanism for the GSEs to even do that.

We have been engaged in that process. We are moving forward on it. We anticipate having some sort of a preproduct approval process, which will be forwarded to OMB for OMB's review and approval. We are diligently working at it. We believe it is our responsibility. We believe we are legislatively mandated to do it. We have to find a way to do it in a way that is—this is not an easy thing to do.

We have to make sure that as we do it we are not interfering with these very successful entities' ability to do business. But we are just looking at new products, how you define new products, how far does that cover? These are all very, very difficult issues. We are dealing with them. We are coming up with a mechanism.

Our Housing Commissioner, John Weicher, I will be happy to have him brief you in more detail on this if you like. But we are taking this responsibility seriously, I believe for the first time HUD has ever taken that responsibility seriously.

Mr. GARRETT. I appreciate that. Calvin Coolidge is famous for saying, you can't do everything at once but you can do something at once. On this case, HUD hasn't done anything at once on this whole issue for the last 10 years. So I will echo the comments from the other side of the aisle, and from the other size of the dais of just how long they are asking for. Can you give us some sort of a time frame as to when we should anticipate that the process will be up in place? I will welcome your time afterwards to—after the meeting to maybe get a more detail briefing on it.

Secretary MARTINEZ. The number one issue we have to deal with, also by statutory mandate, is the issues of the GSEs' housing goals. We are dealing with it immediately, because it is something that we must do during this calendar year.

After that is ascertained, and we have dealt with that issue, then the issue of product approval will be coming on line for us to put out a mechanism for product approval.

Mr. GARRETT. If I——

Secretary MARTINEZ. That would be sometime towards the end of this year, beginning of next year.

Mr. GARRETT. Okay. And just in the few seconds that I have left, just quickly, GSEs have been granted substantial government involvement and support in the years. The quid pro quo was a limitation on where Fannie Mae and Freddie Mac may be restricted to the secondary market. Do you have—and that if GSEs seek to enter new lines of business—do you have an opinion or comment on a limitation of their competition into the private market in some of the other areas that they are speaking of?

Secretary MARTINEZ. I believe that the GSE charter is clear on what—I don't know how clear it is, but we hope it is clear—and defining their lines of business and the things that they should be doing. They should be in the secondary mortgage market. They should not be in the primary mortgage market. I think by charter that is their role, and that is how they should be defined.

Mr. NEY. The time of the gentlemen has expired. Mr. Clay of Missouri.

Mr. CLAY. Thank you, Mr. Chairman. Mr. Secretary, let's go back to the HOPE VI issue, maybe kind of follow up with Mr. Scott as well as Mr. Watt's questions. If we have HOPE VI projects that are currently in one phase or another, if the program is zeroed out, what will happen to those projects, or have you all reached a conclusion on that yet?

Secretary MARTINEZ. It is—sir, the idea here was not to tamper with or kill the program. The idea was that this program came up this year for reauthorization. We are talking about going forward on what we do in the future. Anyone who got a HOPE VI it is fully funded. Anyone who has applied for a HOPE VI this year and got a grant is fully funded. Anyone who hopes to get a HOPE VI in the next year's cycle and is successful will also be fully funded. There is complete funding for all HOPE VI that have been awarded in the past or are being awarded this year or would be awarded next year. Nothing——

Mr. CLAY. You are talking about orderly phaseout of this program, if it is zeroed out?

Secretary MARTINEZ. My hope is, in keeping with what I said to Congressman Scott, it is not a phaseout, but an evolution of what we go to in the future.

Mr. CLAY. Okay, Mr. Secretary. The Section 8 program provides rental assistance to 5 million low income persons, including 1.2 million families with children, over a quarter of a million elderly families, and approximately the same number of disabled families.

During a time of economic downturn, why are they facing extensive cuts and also dramatic boosts to their rents? Also the second part of the question is why is the Section 8 block grant program being taken away from the local administrators?

I come from a background of 17 years in the State legislature in Missouri, and I don't have faith in the States being able to administer block grants for housing. They have no expertise in housing, so to speak, and I just don't see it being workable. I mean, can you comment on that?

Secretary MARTINEZ. Sir, this is a flexible program. If there are States that have don't have the expertise, the capacity or the desire to do it, we would continue to do the program just as it is being done today.

The program today, though, is not really fully managed at the local level. It is managed with oversight from HUD. It is managed out of Washington in many ways. For instance, a fair market rent, if we were going to set a fair market rent for St. Louis, some local dislocation created a higher market rent, people weren't able to utilize their vouchers, St. Louis' housing authority would to have to come to Washington to get it changed to that fair market rent, and it would take 6 months for that to happen. In the meantime people are not being served back home.

So this is not intended in any way to minimize the importance to the people who are receiving assistance from HOPE—from the Section 8 program. Quite the contrary, it is a way to provide them with a better service, with providing them with full utilization of the vouchers that the Congress year after year authorizes but are unfulfilled.

Mr. CLAY. Yeah. But I just don't see how it is going to make the program more efficient to let the States administer these block grants. I just don't see it.

Secretary MARTINEZ. Well, right now if you think that the housing authorities of America are a picture of efficiency, you are looking at a different picture than I am.

In addition to that, I would suggest to you that the TANF program, the welfare program, that is being administered by the States, my read on it, what I hear on it, is that they are doing a very successful job of it.

Mr. CLAY. TANF is one thing, housing is another. And I mean, this is an indictment on HUD itself then, is what you are saying; if it takes 6 months to turn around, then that talks about the lack of efficiency of HUD also?

Secretary MARTINEZ. Yes, sir. I am here to tell you that it concerns me daily.

Mr. CLAY. What about streamlining the process then?

Secretary MARTINEZ. Sir, we are streamlining as fast as we can streamline.

Mr. CLAY. That method is to turn it over the States and allow them——

Secretary MARTINEZ. In often cases, that is the better way to do it.

Mr. CLAY. You know and I know that States are in a heck of a financial fix now, and you and—and they will look at this as somewhat of a money grab for them. They will find a way to come up with administrative costs and to use that block grant as they see fit.

Mr. CLAY. And that is not—I don't see it as being efficient at all, Mr. Secretary.

Secretary MARTINEZ. Well, Mr. Lowe behind me tells me that 33 States administer the program now. And so I just don't believe, sir, that your fears are well-founded, but that is why we propose legislation. Ultimately you will dispose. And so we believe it is a better way to do it, but—and I am telling you, it is not just inefficiencies of HUD; it is inefficiencies in the housing authorities locally. And we have to acknowledge that. That is a problem. I mean, here, there and everywhere there are issues with housing authorities. I am not saying that—I mean, the evidence is there. The underutilization of the vouchers is a pretty good darn evidence. When you look at a billion dollars that gets recaptured or maybe more that doesn't go back to housing that you have identified as having to go out this year, $990 million we are asking for new vouchers, I can tell you right now that you can award that $990 million in new vouchers, and none of that money will be going to someone that needs a place to live, because you will recapture more than that amount every year.

Mr. CLAY. And the local housing authorities will come back to me and say it is because of bureaucratic red tape.

Mr. NEY. The time of the gentleman has expired.

Secretary MARTINEZ. Well, maybe if the States administer it, we would eliminate the red tape on both ends of the equation.

Mr. NEY. Mr. Shays from Connecticut.

Mr. SHAYS. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

I have four issues I want to talk about: Section 8, CDBG, brownfields, and HOPE VI, and we are going to try to get through them all.

First, I want to say to be Secretary of HUD in a Republican administration is kind of like being Secretary of Defense in a Democratic administration. It is a challenge, and I know it is a challenge. But HUD is hugely important, and I bristle when I think that the Department of Agriculture has nearly 100,000 employees, HUD has about 10,000 employees, and the Department of Agriculture is like perfect. But because it is Republican to the core, we think—and it is farmers—that they can do no wrong. And I am tired of HUD getting dumped on when there are other agencies that need to be looked at with the same kind of look. And I wonder why the Department of Agriculture needs 100,000 employees. There is no good reason.

Now, in terms of this issue of Section 8, there is a real reason why vouchers don't work: Because you need to put down a deposit, first month, second, last month. You need to have a security deposit, and people don't have—in a place like where we live, they don't have $3,000 if they are poor. So there is a reason. And so I would like to ask you, would you object to taking some of that Section 8 voucher money and allow it to be for deposits?

Secretary MARTINEZ. No. That seems perfectly reasonable. I think that would help people to get into safe and decent housing. I hate to make policy here today without——

Mr. SHAYS. I understand.

Secretary MARTINEZ. ——the people behind me, but as a notion, it sounds fair to me.

Mr. SHAYS. Okay. In terms of CDBG, Republicans—I believe in block grants with all my heart and soul, but the problem is when we get a block grant, we never increase it like CDBG; we find ways to then take a little from it. And I understand why Democrats get concerned. We sometimes put a lot of categorical grants, then we give this big block grant, but it is 70 percent of all the categorical grants. I wish that as Republicans we simply transferred all those categorical grants as a unit without a cut and made people assured that we would, like a categorical grant, keep increasing them. And I just say it to you because block grants make sense, but we I think as Republicans lose credibility because we don't protect them. And CDBG is a program that hasn't grown, and yet it is what enables a community to do so much.

Brownfields, I don't understand why we are eliminating them. I don't understand. It is the Department of Housing and Urban Development. These brownfields grants have enabled us to clean up and leverage tons of money, and why would we eliminate it? Don't we want businesses to come in so they can pay taxes and we have a more complete community?

Secretary MARTINEZ. Well, it is not only elimination, sir. It is transfer to the EPA where the program is not only continuing, but enhanced. EPA is funding over $200 million for brownfield redevelopment and remediation. Twenty-five million at HUD was deemed by OMB to belong better with a larger program at EPA where it could all be administered in one place. So that is really the genesis of that.

Mr. SHAYS. Okay. Then we just need to make sure that, in fact, it is not a transfer with less money.

Secretary MARTINEZ. I believe it is a transfer with a substantial additional amount of money.

Mr. SHAYS. But I hope that HUD doesn't lose its name and spirit of its name. It is urban development as well, and this is a key program for urban development. I am not sure that EPA is focused on urban development.

The last thing. I will——

Secretary MARTINEZ. If I may, just on the issue of CDBG, just wanted to tell you that we do have in this year's budget a request for $96 million in addition to the 2003 appropriated amount for the CDBG program.

Mr. SHAYS. Okay.

Let me talk about HOPE VI. I will fight to my death on this program. It has enabled us to tear down old, dilapidated housing, warehoused housing for the poor, and it has enabled us to—as you come into the city of Stanford in the major part of the Fourth Congressional District, we have the poorest of poor living with low income, living with middle income, living with upper middle income, and they can have whatever unit comes next, and it is absolutely awesome. And poor kids see rich folk go to work, and they see people who have a hope and a future. They are not warehoused. I just hope and pray that we rethink what we are doing with HOPE VI.

And I am confused by your statement, 100,000 established—on page 10—established, HOPE VI has served its purpose. I don't understand why it stopped. Established to revitalize 100,000 of the Nation's most severely duressed public housing units. The program has funded the demolition of over 115 severely distressed public housing units and the production of over 60,000 revitalized dwellings. Why stop? And if the money isn't getting spent well, why not fix it?

Secretary MARTINEZ. It isn't that—I mean, I believe that it is getting spent well for the most part. It is not being spent out fast enough. And it needs to be continued. I mean, in other words, we are not stopping the program; we are not going to continue—I mean, we are going to continue to monitor and pay out as communities pull their deals together. Half of—I mean, half of—$2.5 billion remain unspent. We want to see these units come out of the ground. And so my——

Mr. NEY. The gentleman's time has expired.

Secretary MARTINEZ. And so my point today has been to request that we all work together towards what the future of HOPE VI is.

Mr. SHAYS. Thank you. It is a great program, Mr. Secretary, and I hope you save it.

Mr. NEY. The time of the gentleman has expired.

The gentleman from Illinois Mr. Emanuel.

Mr. EMANUEL. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. And I want to continue on a line of questioning from others, including my colleague from Connecticut. Other people have talked about their local government experience. So, you know, when I lived back in Chicago, I served at the appointment of Mayor Daley as vice chairman of the Chicago Housing Authority, which actually did the plan of revitalization; it was the sponsor of it in the board to get it done, the plan you come and talk to and have seen.

Now, there are difficulties with local housing authorities. As you know, what we are doing now in Chicago is not a project, but the entire public housing is being revitalized. We have torn down 100 buildings, replacing 24,000 units; 8,000 of them are for seniors, the very thing that your plan talks about on the HOPE VI, what the Congressman from Connecticut talked about. By ending it, you would cripple the plan that you praised, by doing what you are doing to Section 8. And in Chicago we have, in fact, made massive use of Section 8, exactly the plan of transformation. You would take out from the Chicago plan the very vehicles we have used to transform the public housing. It is the largest expansion—not expansion, the largest recreation of public housing into mixed units anywhere going on in the country, and the vehicles we have used to do that have been the bonding authority you talked about, Section 8, and the HOPE scholarship.

And my goal, I would hope, is what you would do is not end it as a successful program. I don't understand why you would end a successful program since it has taken down 100,000 units. If you are unhappy about the money getting out, put an incentive clause so PHAs move those dollars out quicker. You don't end a success. And if you are unhappy about Section 8, you reform it.

You are abdicating the responsibility that has been given rather than giving guidance and incentive. I have worked on this, spent 4 years of my life on a housing authority doing this, worked with your predecessor, worked with you at one point on this, and you are going to cripple what is a model in Chicago or other housing authorities, close to 20 of them come to look at and try to repeat.

And as I say, I have been on the ground. We can all talk out here in Washington. I have been on the ground actually doing this, trying to work through Section 8, trying to move families, used HOPE VI, and you are going to cripple what Chicago is doing.

Secretary MARTINEZ. Sir, I think that what Mayor Daley is doing in Chicago is remarkable, and I commend you for your part in it. And I believe that if more cities aggressively pursued the issues of housing like Mayor Daley is doing, that we would have a much better America. So I have no quarrel with the approach that Terry and your——

Mr. EMANUEL. I will convey it directly to him.

Secretary MARTINEZ. Please do. I was there about a month ago——

Mr. EMANUEL. I know.

Secretary MARTINEZ. ——and I conveyed it myself.

I just think that the vehicles for private financing that are being used by Chicago are a real key to the future success of what we will do to revitalize America's cities. I also believe that what HOPE VI has done—and Chicago is a good example of what we are talking about. Much has been done. Much needs to be done. And still a great deal of money remains unspent on projects that are already in the pipeline in Chicago. So, you know, you, I believe, are well familiar with how the administration might operate, and you know that there are competing interests every time the President puts a budget together. So at a time of tremendous national need, we felt like HOPE VI is an area where we should take a look at where we have been and where we are going while still maintaining the commitment to continuing to see through all the projects that are out there now.

Mr. EMANUEL. But what you will do—look, you know, you yourself have said it was a success.

Secretary MARTINEZ. It is.

Mr. EMANUEL. Okay. You don't end a success. There are still a lot of failed buildings. Those buildings fail the residents, and they fail the taxpayers. But HOPE VI was a bipartisan initiative. It is succeeding. Do not end it. You are making a mistake. And the greatest program that you model and just praised, you would be crippling it, I am telling you up front, having worked on it endless hours at hearings, with residents, with taxpayers, the HOPE VI.

The Section 8 has been overall a net plus. It has its problems. Block grant isn't the way to do it. I would be more than willing to work with you on types of reforms on how to do it because it doesn't adequately meet the ability of people to move away from the actual geographic area where they live in public housing. Eighty percent of the people who use Section 8 end up going within a three-block radius of the public housing because of the other services that are available there. We need to ensure that Section 8 is a tool that can get away from physically where the public housing has been geographically physically isolated from the rest of the city. We don't want them within a three-block radius of that area. And Section 8 has the right goal. It is not exactly a strong enough bus ticket to get away, but you don't end it by block-granting it because States are not in the capacity to deal with it. You would be hurting Chicago, another example you hold up as a model.

Secretary MARTINEZ. But you would have the flexibility in Chicago to keep the program at the city level. I mean, it doesn't mandate that it go to the State. It gives the option that it go to the State. If it doesn't make sense for Chicago, then that is the way it should be. If it makes sense for another place, they would then have the option to do it. So it doesn't tell you that you must do it that way; it gives the option for it to be done that way.

Mr. EMANUEL. Mr. Chairman, do I have 1 more minute, or should I end?

Mr. SHAYS. No. I think we need to end and let other Members.

Mr. EMANUEL. I appreciate it.

Mr. SHAYS. If we get a second round, we could recognize you.

Let me just say, Mr. Capuano has the floor, and based on the Members who are here, it is Mr. Davis and then Ms. Carson. So, Mr. Capuano, you have the floor.

Mr. CAPUANO. Thank you, Mr. Chairman.

Thank you, Mr. Secretary. There are many things in your budget that I like, and I always like to emphasize that as well, because I know in these hearings many of us tend to argue about the things we don't like. I like the home ownership opportunity stuff. I like some of the increases that I see in the HOME and other things. There are several things here that I like. So it is not everything that I don't like, and I want you to know that going forward.

Secretary MARTINEZ. Thank you, sir.

Mr. CAPUANO. I liked your answer on the brownfields grants, although I have some concerns what is relative to the EPA's mission versus your mission. I would prefer to see it split for that very reason. I actually think that HUD has a better idea what to do in urban areas than the EPA does, but that is something we will work out.

I want to associate myself with everything that has been said about HOPE VI. I am one of the many people that my district has benefited from it. You have heard all the arguments. I don't think it is helpful to repeat them, but I want to make it as clear as I can that everything I have heard here about HOPE VI I totally agree with plus some.

I also want to very clearly associate myself with the things that Mr. Shays had said earlier about the Section 8 certificates. I am really tired about hearing about how the Section 8 certificates are not used. I don't know why they are not used in other parts of the country. I know why they are not used in Boston. And all the reasons you just heard are exactly it. Particularly in one of the most expensive, if not the most expensive, housing market in the continental United States, it really makes it difficult. And the fact that we can use any of them sometimes amazes me. So I think that when HUD realizes that there are differences in different areas, I think we will have a much more productive discussion on the matter.

But I do want to take a minute to talk about some things that I don't think have gotten fully blown out today, namely—well, a couple of things in particular. The Section 108 CDBG loans and the empowerment zones. Both of those items produce more private capital in their respective areas than they do Federal money. Now, I was under the impression that that was a good thing, to generate private investment in areas that would not necessarily get them and to accomplish things that would not otherwise be done, particularly since I have been hearing from the administration rumblings about some liking towards the concept of smart growth, though I have some problems with the way that concept is sometimes utilized. I understand the idea of trying to build in some of the holes we have in some of the urban areas, and both of those programs do it. And to eliminate empowerment zones or to eliminate the Section 108 loans I think cuts off private money that is otherwise unattainable for many urban areas, and I guess I just don't understand what the thinking is on it.

Secretary MARTINEZ. On empowerment zones, let me say the mission was the grant program, which was not very successful and didn't work well. We continue to encourage through the Tax Code for investment in those types of areas that you mentioned, and I think that is the most successful part of the empowerment zone program. So, I mean, we believe in them, we continue in them, but the grant program was just felt to not be the particularly most successful part of it. And so we continue to encourage the economic development that comes from empowerment zones and the tax credits that are given, and many places find it very successful.

Mr. CAPUANO. If empowerment zones are working, again, as my colleague said, in another program, if it is working, why mess with it? And empowerment zones were working, are working, and I think deserve our support.

Secretary MARTINEZ. We have new tax credits in this budget for $11 billion, so we are with you on that.

Mr. CAPUANO. I understand that, but tax credits are one thing, they don't come up front. This is upfront money that has to be matched up. And the same with the 108 loans.

I want to talk a minute, too, about the public housing cuts. It just seems to me just continuous that we are going to walk away from public housing, which amazes me on some levels. I understand, I have all the same concerns that anybody has relative to some of the past history of public housing, but we got rid of the Drug Elimination Grant program. I didn't like that. I think it was a mistake. Now this year we are trying to get rid of the HOPE VI program, which we have already talked about; again, another huge mistake. But we are also cutting the capital fund, we are also cutting the operating fund, which are amazing to me.

Is there any concern whatsoever? Do you think that we are ever going to get to the bone of public housing, or are we just going to every year cut deeper and cut further and just totally get rid of public housing? What is the general long-term policy goals on this issue?

Secretary MARTINEZ. I don't think there is any change in the policy goals in respect to public housing, sir. I believe that the operating subsidy funding levels of this year are consistent with funding levels of other years, you know, in the range of what has been done in the past. And I don't believe that the capital fund funding this year is inappropriate, given where we are in the budget cycle.

Mr. CAPUANO. I don't disagree that there is no change in policy, because it is to cut further and further and further and just ignore our public housing. I don't think there is a change in policy. I guess I am just wondering what is the long-term goal if you are here for 100 years and the administration is here for 100 years, to just get rid of public housing, let it all crumble and fall around the areas of all the people that live there now?

Secretary MARTINEZ. Well, I can assure you I won't be here for 100 years, but I don't think that that is the goal, no.

Mr. CAPUANO. One last comment. All right. I won't.

Mr. SHAYS. If you would like to make a comment after others have gone. We have Ms. Harris—Ms. Harris, excuse me—and then Mr. Davis and then Ms. Carson.

Ms. HARRIS. Thank you, Mr. Chairman.

Welcome, Secretary. Thank you for your testimony this morning.

It is clear that the administration is poised to create a robust commitment to expand affordable housing opportunities for low-income families. Your budget proposal contains several landmark initiatives that will extend the dream of home ownership to tens of thousands of families and individuals across the United States. For example, HUD's American Dream Down Payment Initiative would empower families and individuals to overcome the most significant obstacle that faces potential home buyers, and that is the down payment.

I strongly support this innovative proposal, and thus I plan to introduce the American Dream Down Payment Act in the upcoming days. The act will fully implement the initial commitment that Congress made to this idea by providing $75 million in funding for fiscal year 2003. By providing communities throughout America with $200 million grants in fiscal years 2004 and 2005, and it will enable 40,000 families to receive an average subsidy of $5,000 annually. This initiative will be administered as a part of HUD's home program while preserving the home program's flexibility. States will have the authority under the act to creatively design the package of down payment assistance that best meets local needs.

Secretary Martinez, could you please comment further on this proposed legislation, the assistance that it will provide to low-income families and individuals, and to minorities in particular?

Secretary MARTINEZ. I so much appreciate your focus on this, and I appreciate very much your willingness to sponsor this American Dream Down Payment Initiative. I believe at the end of the day that the way we are going to make America's needy families successful in this country is by providing them the opportunity to become a part of the American dream, and that comes through home ownership. That will give people the economic empowerment to be in control of their own lives and to become self-sufficient.

All we can do to bring families that might be today holding a Section 8 voucher, that might be today part of that HOPE program that we talk about, and all of us concerned about how we better address them is to give them that opportunity to own a home, and you do that through the American Dream down payment, giving them a little help with the down payment so they can become home owners; and then, in addition to that, with the increase in home ownership education and counseling that is in this budget as well. We have more than almost doubled, more than doubled, the money that was in the budget for—when I came to HUD for home ownership education and training. People need the skills to know how to buy a home. Immigrant families, people to whom English is a second language are now the largest minority in America. We need to teach them the ways of the American financial system and how they, too, can taste the dream of home ownership.

So I thank you for your support and commitment to what I believe is the vitally most important thing we are doing at HUD, providing home ownership.

Ms. HARRIS. Thank you, Secretary.

I would like you to comment further. Some State and local government housing authority—advocacy groups oppose the American Dream Down Payment Initiative. The National Council of State Agencies objects to what they view as this initiative to disparagement of the HOME program. They claim that it will duplicate and dilute existing efforts. What is the administration's response to that criticism?

Secretary MARTINEZ. I really think their concerns are misplaced and misguided. The fact of the matter is that this $200 million is over and above current funding levels for the HOME program. Many HOME programs around the country already do down payment assistance. The President's goal is to ensure that at a minimum $200 million of what goes in the HOME program is going to be devoted to down payment assistance, the greatest tool that we can provide families that are seeking to buy their first home and families who are seeking to move into home ownership.

So I believe that their concerns are really not appropriate, particularly in light of the fact that this is all new money funded on top of what already is a very substantial increase in the HOME budget, over 5 percent.

Ms. HARRIS. And in closing, Mr. Chairman, the expansion of opportunities for low-income families is one of my top priorities to my constituents, and, in fact, my district has relied heavily on HOPE VI grants in the past. There is a stellar example in Manatee County where they received about $21 million to revitalize the public housing side, and it is really extraordinary. And now I am working—I have been working with several other communities, counties to receive that.

So just let me echo, while I recognize that HOPE VI has had its concerns that need to be addressed, I just wanted to state for the record, too, that we have been pleased with what has actually occurred within our district.

Secretary MARTINEZ. Thank you.

Mr. SHAYS. Thank you.

The Chair will recognize Mr. Davis next and then Ms. Carson. And, Ms. Carson, you are going to get an extra minute because you are so patient.

Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

Mr. Secretary, let me try to cover some ground that has not been covered in the last couple of hours. One——

Secretary MARTINEZ. You are going to have a challenge on your hands.

Mr. DAVIS. I do indeed, and I will try to live up to that.

Secretary MARTINEZ. Yes, sir.

Mr. DAVIS. One of the things that strikes me as someone who represents a district that has a large rural component is that the Rural Housing and Economic Development Program is eliminated altogether. Now, when you have spoken on this previously, including your testimony to the Senate yesterday, the response that you have given and that others in the administration have given is that, well, the elimination of the RHED is not so bad because the USDA Rural Housing Program will pick up the slack.

Let me tell you one concern I have of that, Mr. Secretary. Let me tell you the facts as I understand them, and I am sure you will correct me if I am wrong. The program, the RHED Program, as I understand it, targets capacity building. It provides a vehicle for not-for-profits, for example, to put money into building low-income housing. It also provides some money for developers to put into low-income housing, whereas the Rural Housing Program that is within USDA is basically yet another form of a lending program.

Now, my concern is that at the end of the day, if we are serious about the problem of community capacity building, if we are serious about the problem of expanding housing opportunities, then we need to not simply put more resources into programs that transfer money to consumers. That is an important part of it. But we need to also make sure that we are giving developers an incentive to build certain kinds of housing, and that we are giving not-for-profits the incentive to do this kind of work. So can you address that concern of mine, Mr. Secretary?

Secretary MARTINEZ. Yes, sir. First of all, I reiterate that the Office of Management and Budget views this program as belonging with rural housing, and that is why it is every year not funded and always funded through the—well, it gets funded by Congress back into HUD. But in any event, this little thing goes back and forth every year, one of the interesting things that I have come to learn about Washington.

In fiscal year 2004, the President's request includes a new Rural Strategic Investment Program for the Department of Agriculture which closely mirrors the Rural Economic Development Program established by Congress and HUD. This new program was authorized in the Farm Security and Rural Development Act of 2003, and it funds it at a level of $85 million, which is a first-time funding. So I believe that the same programs that are existing through this program at HUD would be mirrored at the Department of Agriculture with a far larger funding level than what is at HUD.

Mr. DAVIS. So do you take issue with the premise then that the actual purpose of the RHED is different from the purposes of the

Rural Housing Program in the USDA? I understand the funding commitment is matched, but the nature of the program.

Secretary MARTINEZ. I think the Rural Strategic Investment Program now in the Department of Agriculture will provide the variety of opportunities for programs that are now under HUD.

Mr. DAVIS. And what kind of a funding increase is that program?

Secretary MARTINEZ. With that kind of a funding increase as well. So I don't believe what you are seeing at HUD is going to disappear; it is going to be funded at $85 million at Agriculture is what it really boils down to.

Mr. DAVIS. Before I move on, I would just reiterate the concern that I think that the nature of the two programs is different, and I think that they both serve important parts of the mission. There is a similar concern that I have that relates to the Section 502 program. And while there is an increase in the program, there seems to be a shift from direct loans to guaranteed loans.

Now, the problem that I have with that, Mr. Secretary, is that the guaranteed loans, number one, serve people who are at a higher income bracket, around 37,000 to 40,000, as opposed to the 17,000 to 20,000 served more by direct loans. The second problem that I have is that if you look at the characteristics of people who benefit from the guaranteed program, they tend to be more urban. The people who benefit from the direct loan program under 502 tend to be more minorities, and they tend to be more rural.

So my concern is that, as with the first matter I raised, the administration is shifting its strategies and saying that we are getting the same bang by putting more money into another area, but the nature of the programs are different. And I am particularly concerned with Section 5012 that some of the neediest people are going underserved. The increase that this budget recommends is a relatively small increase over a period of time.

Secretary MARTINEZ. Well, sir, I am afraid that I can't comment beyond what I have said to you on that, but if you would like, I would be happy to try to provide you a more comprehensive written response to your request on that issue. But I am really not that knowledgeable about rural programs, so it is difficult for me to try to equate one thing with the other.

Mr. DAVIS. I would just make one point about that; that I would hope that you would change that, Mr. Secretary, because I do think that in rural America housing is a very important need.

Secretary MARTINEZ. It is, but unfortunately, the way the government has been envisioned, it puts a huge component of housing for rural America at the Department of Agriculture, not at HUD. And while I work with Secretary Veneman from time to time, and we do joint things and try for our local offices to work together and benefit families, for instance, our down payment assistance with Section 8 vouchers has been utilized for people to purchase houses under the Rural Housing Program, I am just not conversant enough to give you an accurate answer to the question that you have raised.

Mr. DAVIS. Okay. I think my time has expired, Mr. Chairman.

Mr. SHAYS. Thank you, Mr. Davis.

Ms. Carson, you have the floor and then Mr.——

Ms. CARSON. I promise you, Mr. Chairman——

Secretary MARTINEZ. I am going to need a break at some point.

Mr. SHAYS. Let me just say, I was going to first say while I still had the chair, you have reported yourself extraordinarily well. You are a credit to the administration, I think, and you have been very generous with your time. If I could be certain as to how many more, we would be happy to give you a break and come back, or we could just go through. Would you like a break right this second?

Secretary MARTINEZ. I would like to break and then come back if there is more than one.

Ms. CARSON. Well, I am going to be very brief.

Mr. FRANK. But we do have more than one, and the Secretary has been extremely generous, and we are grateful for the time. So why don't you take a break and come back.

Mr. SHAYS. Should we come back in 5 minutes?

Mr. FRANK. We have three more possibly, I think.

Mr. SHAYS. We are going to come back in 5 minutes.

Ms. CARSON. Are you going to break before me?

Mr. SHAYS. But you are going to get 6 minutes as long as I have that chair just to make up for it.

Ms. CARSON. But I got to yield to Mel Watt.

Mr. SHAYS. We are going to have a 5-minute break. Trust me on that one.

[Recess.]

Mr. SHAYS. The committee will reconvene. And we move on to the gentlelady Ms. Carson.

Ms. CARSON. Thank you very much, Chairman Ney. In deference of time, Mr. Chairman, I would like to yield 1 minute of my 7 minutes to the Honorable Mel Watt, please.

Mr. SHAYS. I wasn't good in math, but I think we can yield that 1 minute of the 6-1/2 minutes. Compromise is the art here.

Mr. WATT. Mr. Secretary, I just had one other question I meant to ask you. You all last year put a $20 million cap on HOPE VI grants, and I am wondering whether you will at least look at the idea of putting some exception language into the next round, because there are some projects if we are going to terminate this program or if you are not going to terminate the program.

Secretary MARTINEZ. We still have one more round regardless. We will take a look at that. The fact that we felt—I felt, frankly, very personally about this, that it would only enhance the ability of the grants to be spread out a little more throughout America. And when you look at——

Mr. WATT. I understood the rationale for it. I just wanted to know if you would look at the possibility——

Secretary MARTINEZ. Okay.

Mr. WATT. ——of putting some exception language in that for compelling reasons.

Secretary MARTINEZ. You wouldn't have any specific area in mind where that might be?

Mr. WATT. Yeah, I got a specific area.

Secretary MARTINEZ. You might let us know about that, too, so we could at least take a look at what it is you are trying to accomplish.

Mr. WATT. Yes, sir. I would be delighted. And I have bipartisan interest in it.

Ms. CARSON. Excuse me. I am reclaiming my time.

Thank you very much, Mr. Secretary. I will be very brief. I will be like Brillcream, just a little dab will do me.

My question is concerning the Public Housing Drug Elimination Program that has been dropped. You were out in Indianapolis and saw what a great job we have done with public housing there, et cetera, et cetera. I hope you had a chance to go around and look at some of them.

Secretary MARTINEZ. Yes, ma'am.

Ms. CARSON. Crime dropped 60 percent. You eliminated the drug elimination program to the police, the COP program. How do we respond to that? The cities are strapped for resources. And then I was wondering, can I drop—see, I am being very nice. I have a request for a waiver here, so—because I am nice, I want you to look at that.

Secretary MARTINEZ. Thank you very much. We will be glad to look at a waiver. We sign a lot of those, so I will be happy to take a look.

We put $250 million into the Operating Subsidy Grant Program, which was supposed to take the place of drug elimination monies. What it did is it freed it up for the local authorities to then do as they saw fit with that money, so that they could then devote it to drug elimination programs or do something else with it. Many housing authorities felt like there were other ways that they could do the same thing. So we freed up the opportunity for people to do different things with it, and as you know, it was a program that had a lot of challenges in it.

And one of the things that I also think is important to keep in mind is the continuing obligation of local government to provide public safety in places of public housing. I don't think it is the obligation of the landlord in public housing to be the policeman on the beat as well. Whatever the city is, Indianapolis or whoever, they continue to share a responsibility for law enforcement, for providing the kinds of drug programs that are going to help a person out of addiction. All of these things really are community resources that need to be attacked on a communitywide basis.

So I believe that we are continuing to look at the problem. I understood your concern, but most of the funding was restored as in that large grant to the housing authorities.

Ms. CARSON. Okay. I am going to draft you a letter to save time, and concerning FHA 30 percent foreclosure. I heard Congresswoman Harris discuss this first-time homebuyer where you give them a down payment. My concern is how are they going to pay for the house after that? Indianapolis outranks any other place in the country, 6,000 foreclosures. Home ownership is ideal, but we have got to find out what is going on that people are losing their homes.

Secretary MARTINEZ. Well, a lot of times that comes from predatory lending. We need to work at that.

Ms. CARSON. That is my point. You hit it right on the head.

Secretary MARTINEZ. Absolutely. We are working diligently on that. We are also doing things at FHA to avoid the flipping of properties and a lot of abuse that came as a result of that. We are taking this issue very seriously. We understand how they harm people who are at the place where they don't need harm. They need help.

And so I understand what you are saying, and we are working with the FTC in enforcement of predatory lending. We did a major case which I believe may have touched Indianapolis or Indiana this past year, and we are looking forward to more and more enforcement actions as we tried to eradicate predatory lending.

I am also reforming the Real Estate Settlements and Procedures Act in a way that is going to make consumers more empowered to fully understand the closing process and better be able to shop for the lowest price so they don't get in the closing process, number one, know what they are buying, and number two, what they are paying for, in a way that reduces also the costs hopefully by about $700 per transaction, which is going to be good for needy families and consumers that are out there trying to get a mortgage.

Mr. SHAYS. Mr. Gutierrez.

Mr. GUTIERREZ. Thank you very much.

Mr. Secretary, welcome.

Secretary MARTINEZ. Thank you.

Mr. GUTIERREZ. I was hoping we could talk for a minute about a local issue in Chicago, and it is in regards to your Section 514 Technical Assistance Program for tenants and the audits by HUD's Inspector General. There is in particular an organization, Tenants United for Housing. They are a not-for-profit organization serving tenants in my district in Chicago, and it is a recipient of HUD's Outreach in Training Grant. One of the buildings that they helped work on is 1170 West Erie, which is called Northwest Tower. You see it from the Kennedy Expressway. We saved it from gentrification. It was financed under HUD, and when the owner wanted to go bankrupt, the tenants bought it and organized it. So it is a pretty good organization. And I guess we have a problem with their funding, and it has to do with $6,900.

Now, they were given a no tag grant of $800,000; they received $434,423, and the Inspector General found that they had $6,900 in ineligible costs. That is to say that—they had a conference which they were approved for; HUD approved expenditure of $6,900 for a conference in September and October, but then September 11th and the tragedy of September 11th occurred, and they didn't have the conference. And then HUD froze the money for everybody. Just froze it. So it is kind of hard to get. Give the money back, put in your next waiver. You usually say you made a mistake, and here is your money back.

So the IG came out, and it just seems to me since they have done such a great job, and since they got 434,000, and nobody is disputing the $6,900, and they are dying to give it back in terms of the receipts, it has never been an argument. And I guess it totals, what, about 1-1/2 percent of the total money that they received. So they got $434,000, never a problem. Then their last $6,900 there was a problem, and they are dying to give it back, and they have been calling me. And I know they want to give it back, but they are frozen out.

Now, some people who the Inspector General had a problem with, not only was ineligible but other costs, continued to receive money after it was not frozen. So I just thought if we could just look at the $6,900—look, we shouldn't—1-1/2 percent is 1-1/2 percent too much. But given what it represents in its totality and when it happened, maybe we could take another look so that they can go out there and do the splendid work that they have been doing. What do you think?

Secretary MARTINEZ. I think you raise a perfectly good legitimate point. My problem is, as often is the case, is that I am constrained in what I can do by the legislation that directed the audit by the IG in the first place. That audit—and I have received a draft report from the IG, and it doesn't make a determination as to whether or not grantees who have very technical violations—it says that if there is a violation, it shall terminate funding. That is the way the statute reads.

My hopeful interpretation of it is that I will be given the discretion to make judgments in a situation like this as opposed to some other that might be a very egregious violation.

So we are trying to make sure that we get, first of all, the final report from the IG before we proceed, but then, in addition to that, the legal interpretation of what latitude I have, because right now the argument is made that I have no latitude and that I must withhold any further funding. I assure you that I am one who is, you know, a benevolent judge. And I believe that, if given the opportunity, a case like this will be funded.

So I will look at it particularly closely in the one that you have brought to my attention, but for all of them actually, to see that we do what is right and find the latitude, actually ensure that we don't fund those who maybe have abused the privilege of the grant, but certainly continue to fund those who are doing a good job and maybe had a very technical violation.

Mr. GUTIERREZ. Because they haven't received anything, and so now they are looking at obviously they have had to terminate most of their employees. My understanding, and I know you will check into this, Mr. Secretary, is that you do have the discretion, and that the statute is you can—may proceed. I know you can do one or the other. But it just seemed—and maybe the law is so tightly wound, but if you take a look at it, I just think it is a great group of people. Again, I am not willing to excuse 1-1/2 percent of anything, but it is the last 1-1/2 percent they ever got.

Secretary MARTINEZ. You are a good advocate. You made a compelling case. The question really boils down to whether I have the legal authority to take that into account or not.

Mr. GUTIERREZ. I appreciate that.

Mr. NEY. The gentleman's time has expired.

Mr. Miller of North Carolina.

Mr. MILLER OF NORTH CAROLINA. Thank you.

To follow up on the line of questioning that you just had, my understanding is that the statutory term is recapture the funds, any funds that have been misspent, not to terminate funding.

Secretary MARTINEZ. It is both terminate funding and recapture funds.

Mr. MILLER OF NORTH CAROLINA. Okay. So it is your understanding that the statute requires you to terminate all funding if there is any violation however de minimis it may be?

Secretary MARTINEZ. My understanding is—well, first of all, I have not concluded what my ultimate understanding is going to be because I don't have a final legal opinion on it. Some are suggesting that that is the case, that I have no latitude whatsoever. We are hoping that there will be some latitude found so that I can do what would be the right thing to do, what I believe to be the intent of Congress. But when the language says shall, that usually is mandatory language, and we need to be very cautious that I am acting within the legal authority that the statute gives me.

Mr. MILLER OF NORTH CAROLINA. Mr. Secretary, I would urge that you hurry with that determination, because while these groups have had their funding suspended, they are having to lay off the people who do their work; those folks are finding other jobs, and the ability to complete their work, they are losing that ability altogether while their funding is suspended.

Secretary MARTINEZ. I understand, and I just ask you to please understand my position as well. I have an Inspector General that operates independent of my jurisdiction, if you will. He is a Presidential appointee. He has his own set of responsibilities. I have to get a final report from the Inspector General, and once I get that report, then I will be quick to make a determination. I assure you that it is not going to just languish on my desk, but I don't have the final report from the IG, and until I do, I just cannot do anything about it.

Mr. MILLER OF NORTH CAROLINA. I also understood, Mr. Secretary, that the statute required that any action would come after a final report; is that not correct?

Secretary MARTINEZ. That is correct.

Mr. MILLER OF NORTH CAROLINA. I am sorry? You have suspended funding now, but you haven't gotten the final report?

Secretary MARTINEZ. The IG has instructed us—have done individual reports. And based on the individual report from the IG, and interpreting the law as being mandatory, we have suspended funding for the time being.

Mr. MILLER OF NORTH CAROLINA. Okay. My understanding is that the IG, the Inspector General's conclusion is that there is not any kind of widespread pattern of abuse.

Secretary MARTINEZ. That is not the case. The IG report found that out of the 47 grant—out of the 40 grantees, about 30 had violations of some sort of another. As I say, some are trivial, but a good number of them are not trivial.

Mr. MILLER OF NORTH CAROLINA. Well, but we are not talking about fraud. We are talking about recordkeeping, we are talking about not having receipts.

Secretary MARTINEZ. I don't know that I am in a position to characterize the nature of the violations. I do believe, though, that some would be fraud while others might be very technical in nature.

Mr. MILLER OF NORTH CAROLINA. Okay. What opportunities do these agencies have to challenge, to have due process, notice and opportunity to be heard to challenge this really draconian measure of losing funding and the programs are drying up and blowing away?

Secretary MARTINEZ. You know, let me say that what you raise are interesting points and interesting issues. I am charged with administering congressionally passed legislation, and what I have to do is to make sure that I am true to my obligations under the law so I am not in violation. So I am going to have to be very careful about what I do. And the statute does not seem to provide a great deal of latitude in all of these issues. So what we are doing is taking a very safe approach, which is to make sure that we are not back here on hearings before you about why we didn't enforce the law; and in the meantime, the process—the due process that we will administer is whatever due process the Congress passed in its statute.

I mean, I don't create the laws; I enforce them. So my role is to provide whatever due process is provided for in the law, but I cannot create due process where none may exist. They certainly have a chance to challenge, they have a chance to appeal it. I mean, common sense will prevail in all of this. But I believe that, you know, we always should look at the statute and see if this is something we want to live with going forward or whether changes ought to be made in how it reads.

Mr. MILLER OF NORTH CAROLINA. Do those agencies have any opportunity to challenge the suspension of funding before it was suspended or to challenge the findings of the audit before their funding was suspended?

Secretary MARTINEZ. I don't feel that I have enough of a legal opinion to give you on that, but I would say that whatever is provided by statute we will do to the fullest. And I will interpret the law in any way that I can in the light most favorable to the applicants and to the grantees to give them every benefit, obviously, of due process. But ultimately, if it is found by the conclusions of the IG that either fraud or serious misdeeds have been committed, then we will enforce the law and ensure that Federal money is not being misspent.

So I am afraid I cannot answer for you more fully at this point.

Mr. NEY. The time of the gentleman has expired.

The gentleman from Massachusetts.

Mr. FRANK. I just wanted to follow up only because of this, because I want to make clear I agree with the Secretary. We are dealing with an excessively rigid statute, but I should make clear, this is an Appropriations Committee invention. This was not done here. And it is relevant because I think that when we talk about not legislating appropriations bills, there are reasons for this. This is an example. And I don't mean by this to agree exactly with how it is being interpreted.

I will say this: We had an earlier problem with some of these groups, the outreach groups. I spent a lot of time, Mr. Weicher was helpful, the Secretary too. I was frustrated it took longer than it should have, but we about cleaned up that situation. These are groups of, people should understand, hard-working volunteers. And I agree with the gentleman from North Carolina. I don't think we are talking about people trying to steal any money. I am pretty sure we are talking about hard-working people, not always fully funded for lawyers and accountants, and I think they were being somewhat excessively harshly treated. We were able to work out with this committee, with the Secretary, and we had most of the things resolved, and then an excessively rigid enactment came from the appropriators.

Now, there may be more flexibility in how we do it, but I have been urging people that we all ought to be asking the appropriators to relax, because while, there is room for some flexibility in administration, I do believe in this case the greater part of the problem is from a statute that the appropriators adopted without any consultation, I believe, with any of our staff, certainly not on the housing side either way. And I would be glad to work with the Secretary. And I again appreciate, Mr. Secretary, your very generous use of your time and your willingness to respond, as you have, to all the questions. But I would be willing to work, and I would hope on both sides we could here in this committee, and the Secretary, to try to get the appropriators to give a little of the flexibility. I think what the gentleman from North Carolina was asking for substantively we would all agree makes sense. And to the extent that the appropriations language might interfere with some of that, I hope we can get it changed.

Secretary MARTINEZ. Absolutely. Yes, sir. I think your sentiments and mine are the same. I want to do right by these folks to the extent that that is possible. But I am also going to be constrained by what the statute language is.

Mr. NEY. The Chair notes that some Members may have additional questions which they will want to put in writing. Without objection, the record will remain open for 30 days for Members to submit their questions in writing to the witnesses and for the responses to be part of the record.

Mr. NEY. Without objection, I also want to thank the Secretary for his time and also his answers to the questions.

Secretary MARTINEZ. Thank you very much, sir.

Mr. NEY. We will call up the second panel.

I would also note, we have conferred with the Ranking Member. And if the panelists would so choose, the witnesses would so choose, you can capsulize your statements. There are, I would assume, a few questions. It is up to your discretion whether to take the full 5 minutes or to capsulize your statements and submit for the record.

The second panel, I would like to introduce the panelists. Mr. Art Garcia. And Mr. Garcia was appointed by President Bush to serve as the Administrator of the Rural Housing Service in the U.S. Department of Agriculture. Prior to coming to Washington, Mr. Garcia enjoyed a career in banking while also serving as president of the Hispanic Bankers Association, as chair of a PBS affiliate in Albuquerque, as a member of the City of Albuquerque Library Board. I want to welcome Mr. Garcia.

Mr. Anthony Lowe was appointed Administrator of the Insurance and Mitigation Administration on March 2002. Mr. Lowe is responsible for overseeing the National Flood Insurance Program, the Hazard Grant Mitigation Program, and all initiatives aimed at eliminating and reducing the risks this Nation's communities face for natural disasters.

Welcome, Mr. Lowe.

And the last witness is Ellen Lazar, the Executive Director of the Neighborhood Reinvestment Corporation, a public nonprofit organization chartered by Congress in 1978. The principle purpose of the Corporation is to revitalize older urban neighborhoods by mobilizing public, private, and community resources at the neighborhood level.

Welcome, Ms. Lazar.

And we will begin with Mr. Garcia.

STATEMENT OF ART GARCIA, ADMINISTRATOR, RURAL HOUSING SERVICE, DEPARTMENT OF AGRICULTURE

Mr. GARCIA. Thank you, Mr. Ney.

Thank you very much for the opportunity to testify today. A year ago, working in the financial services industry, I never dreamed that I would be before——

Mr. NEY. Turn the mike on there.

Mr. GARCIA. Okay. Thank you. Again, thank you for the opportunity to testify. I have been Administrator of Rural Housing—my name is Art Garcia—for a little less than a year. A year ago I never dreamed that I would be before such a distinguished body, but the American dream does come true, and I am grateful to be here.

I would like to submit for the record my written testimony and provide a brief summary of that testimony.

We have a proposal in the administration, $5.67 billion for our program. Of that we are utilizing 4 billion in guaranteed loans and direct loans to assist 49,000 families gaining the dream of home ownership. Of that, 2.5 billion will be utilized in the Loan Guarantee Program to allow 31,000 families to achieve the American dream; $1.4 billion will be utilized to allow 18,000 families to get direct loans from the U.S. Department of Agriculture to attain home ownership.

The 2000 census shows that 13 percent of rural America is minorities. In 2002, the rural housing portfolio of loans, guarantees, and grants totaled 24 percent minority usage in rural America, but we say that is not good enough. To further the President's initiative on minority home ownership, we have stood up and made a Five-Star Commitment, a five-point commitment to increasing minority home ownership in rural America, and to do that we are lowering the fees in our guarantee program. We are doubling the number of participants in our self-help program; that is, the grantees. We are increasing our participation with minority lenders, promoting credit counseling with FDIC and other partners as well, and setting goals and monitoring our activities.

I wanted to go back for a moment and talk about our 504 program where we are providing 66—or proposing 66.5 million to help 12,000 families have better homes by providing sanitary homes for existing homes, by providing disability facilities for homes, and the ability for Americans to have a better way of life.

We also believe that we have to do this with fiscal responsibility, and we are proud of the leveraging that we have done within our program. In 1996, 8 percent of our single family loans were leveraged. In the year 2002, 55 percent of our loans are leveraged with other funds from other sources. In doing this, we have expanded the taxpayers' tax dollars by 12 percent and have added $120 million to our ability to help families by helping 2,000 more families with that money.

We also have a Multifamily Housing Program that we are very proud of. We are proposing in the 2004 budget $70.8 million for rehab and repair of 5,900 units. We are proposing 100 million for new construction under the 538 guarantee program. We project that that will provide 2,400 new apartments for rural America, and also 14 million for our farm labor, both on-farm and off-farm program, to provide livable conditions for farm workers who often face the worst living conditions and who are the fuel of the agricultural industry in America.

An investment in 100 multifamily units from Rural Housing Service puts back into the community. Its contribution to the community is $5.3 million in income to that community in the year of construction and 2.2 million thereafter. It provides 112 jobs for construction year, and 46 jobs thereafter to maintain the facility. And it provides to a small local community 630,000 in government revenue, local government revenue, in the year of construction, and 384,000 in revenue thereafter.

Coupled with our 515 program, we are proposing 740 million for our Rental Assistance Program. This is to renew over 42,000 new contracts. The rental assistance contract covers 5 years for a tenant, so it allows through rental assistance stability for an apartment complex, stability in that people stay for a long time and in a much more livable complex.

In this Multifamily Housing Program, we help Americans who have an average income of around $8,000 a year. They are the most neediest. What we need to do in our administration, what we propose, is to find new ways to stretch the dollars, to find new partners to protect tenants. And that is our administration's position, to protect the tenants that are in our facilities. And we are also proposing or beginning work on a study to see how we can make the 1962 version of the 515 program—make it more relevant to 2002, 2003, and beyond.

So, we are proposing and we are beginning work on a study to make our program better.

Finally, in our Multifamily Housing Program, we have taken the recommendations of this committee, and we are improving our technology. We have now installed a third generation of our multifamily information system, and our management system is now more capable to track rental assistance, capable to track our inventory, and gives us a much better streamlined way to make sense of managing our program.

Finally, our community facility program brings more than brick and mortar houses to a community. It helps us to complete the picture by bringing fire, rescue, libraries, et cetera, to a community. We are proposing 250 million in direct loans, 210 million in guarantees, and 17 million in grants.

I know I am running short on time, so I will cut my comments, but I want to make a few more comments. With these community facilities, we are proposing that we will do 140 new or improved health care facilities for rural America, 130 new or improved fire and rescue facilities for rural America, and 50—create 50 new child care facilities for rural America.

I want to end by stating, first of all, that we are very proud of our community, of our loan service center in St. Louis, we have been very active there, and that we are managing and servicing over 470,000 loans in that facility. That facility has been very active in working with the National Industries for the Blind to help provide statements in Braille. We have been working with the TDD phone system and e-mail for the visually impaired. Eleven percent of our staff there is bilingual, so we help those who are unable to speak English and are experienced on how we do this in our facility. And we are very active in the Work to Welfare Program, where we have taken many people from the roles of welfare and put them to work in our loan center.

Again, I thank you for the opportunity to speak today, and we will stand ready to answer any questions.

Mr. NEY. Thank you.

[The prepared statement of Art Garcia can be found on page 82 in the appendix.]

Mr. NEY. And all witnesses, extra material or statements will be, without objection, entered into the record.

Mr. Lowe.

STATEMENT OF ANTHONY LOWE, ADMINISTRATOR, INSURANCE AND MITIGATION ADMINISTRATION, FEDERAL EMERGENCY MANAGEMENT AGENCY

Mr. LOWE. Thank you very much. My name is Anthony Lowe. I am the Federal Insurance Administrator as well as the Director of the Mitigation Division of the Emergency Preparedness and Response Directorate, Department of Homeland Security.

Chairman, Ranking Member Frank, members of the committee, on behalf of the National Flood Insurance Program administered by the Department of Homeland Security, I welcome and appreciate the opportunity to appear today before the Committee on Financial Services. I will focus my testimony today on the issues of risk reduction as they relate directly to the National Flood Insurance Program as well as its modernization program.

Before doing so, however, I want to particularly thank this committee, the Chairman, the Ranking Member Frank for your leadership for reauthorizing the National Flood Insurance Program. Through your efforts we were able to maintain service to 4.4 million policyholders and our stakeholders that rely on the National Flood Insurance Program for protection from flood losses.

I am also happy to report that the National Flood Insurance Program, the largest single-line insurance company in the world, is debt free.

As you may recall, in June of 2001, after Tropical Storm Allison battered the Gulf Coast and East Coast states, we had to borrow $660 million from the Treasury to pay for losses that exceeded our reserves. We have repaid that debt, with interest, as of October of 2002. The true payoff, however, was the 30,000 victims of Allison who had their claims paid off through the National Flood Insurance Program, rather than relying on disaster relief.

The National Flood Insurance Program stands once again on solid financial ground as we begin a new era in emergency management that began on March 1 of this year. That day, 22 Federal agencies were consolidated in the Department of Homeland Security that serves a clear mission, to protect our citizens from all hazards, from terrorist attacks to natural disasters.

Applying our collective expertise and resources in DHS to all hazards that face our Nation is the expectation of the President, Secretary Ridge, and the American people. In fact, this is the mission of Secretary Ridge, a mission that Secretary Ridge made clear last week to the National Emergency Management Association, namely that DHS serves an all-hazard mission and that the Department is an all-hazard agency.

As you know, the Homeland Security Act of 2002 was budget-neutral for the necessary start-up costs for the new Department. With the authorization and approval of Congress, each agency moving into DHS was asked to make a one-time contribution from its unobligated balances from fiscal year 2002.

The National Flood Insurance Program was no exception. We also contributed funding for start-up costs from unobligated funds. Those remaining balances from fiscal 2002 were from the Flood Mitigation Assistance Program.

Many of our stakeholders and partners, including the Association of Flood Plain Managers, have voiced concern about this transfer of funds and whether it signals a shift in national priorities or in our commitment to serve those at risk in the Nation's flood plains.

While the creation of DHS is an enhancement to our mission to protect people and property from floods and other natural hazards, as well as man-made, I want to assure this committee and the NFIP's partners and stakeholders and those at risk from flooding that our commitment to save lives and property under the NFIP is unwavering.

First, all eligible and pending FMA mitigation projects that States submitted at the time of the transition will be funded with the balance of fiscal year 2002 and 2003 funds as well as any additional funds necessary from 2003 and 2004 appropriations.

Second, the President's 2004 budget request for the Department of Homeland Security accounts for the administrative needs of the Department, so ours was a one-time contribution.

Third, the traditional 2-year overlapping cycle for the development of funding of FMA projects should minimize any significant impact on projects that are ready to be implemented in fiscal year 2003.

In addition, for fiscal year 2003, Congress provided $150 million for the Predisaster Mitigation Grant Program. The increased funding for predisaster mitigation offsets the reduction in the Hazard Mitigation Grant Program, HMGP. The remaining FMA funds, coupled with the increased funding for predisaster mitigation and the continued HMGP funding, will also provide multiple opportunities to fund mitigation projects and address our highest priorities, including repetitive lost properties.

To implement this competitive program, we are developing a national evaluation system where the benefit-to-cost ratio will be primary.

I want to talk a little bit about map modernization as well, mitigating and insuring the——

Mr. NEY. Excuse me. I just want to note your time has expired. But if you want to summarize.

Mr. LOWE. I will close.

Again, I appreciate my opportunity to testify before this committee.

Mr. NEY. Of course, anything you want to submit for the record has already been approved.

Mr. LOWE. Thank you.

[The prepared statement of Anthony Lowe can be found on page 117 in the appendix.]

Mr. NEY. Move on to Ms. Lazar.

STATEMENT OF ELLEN LAZAR, EXECUTIVE DIRECTOR, NEIGHBORHOOD REINVESTMENT CORPORATION

Ms. LAZAR. Thank you. Good afternoon, Chairman Ney, Ranking Member Frank.

My name is Ellen Lazar. I am the Executive Director of the Neighborhood Reinvestment Corporation and would like to ask that my full testimony be submitted for the record.

I am pleased to brief you this afternoon on Neighborhood Reinvestment and the NeighborWorks network's outcomes in fiscal year 2002 and our plans for fiscal year 2004. Before I do so, I would like to take this opportunity to talk about our history and how the NeighborWorks system, working in over 2,300 communities across this country, is able to achieve significant impact.

Neighborhood Reinvestment developed from a 1972 effort by the Federal Home Loan Bank Board and HUD to encourage lending in declining neighborhoods. The Bank Board identified a model for community-based lending and community revitalization in Pittsburgh, named Neighborhood Housing Services.

By 1978, the model's success in stimulating private sector investment led Congress to establish Neighborhood Reinvestment as a public nonprofit corporation.

There are three interrelated components of the NeighborWorks system: the Neighborhood Reinvestment Corporation, the NeighborWorks network, and Neighborhood Housing Services of America, which we call NHSA.

Neighborhood Reinvestment supports the NeighborWorks network through an integrated approach, combining flexible grants, technical assistance, regular oversight reviews and training. These activities build the productivity and strength of the NeighborWorks network and the broader community development field.

Neighborhood Reinvestment founded the NeighborWorks network, 226 community-based nonprofits active in more than 2,300 communities, which operate in our Nation's largest cities, suburban areas and rural areas. NeighborWorks organizations are partnerships of local residents, lenders and local governments. Each organization is a 501(C)(3) corporation and has a local board of directors that sets priorities, raises funds and oversees service delivery. These organizations address a wide range of community concerns, including home ownership, rural activities and multi-family rental housing.

To meet the secondary market needs of NeighborWorks organizations, NHSA works with Neighborhood Reinvestment to replenish the revolving loan funds and capital pools of network organizations.

One example of the power of the NeighborWorks system is the NeighborWorks Campaign for Home Ownership, which is the largest initiative of its kind to bring families of modest means into the economic mainstream. Over the past 10 years, the Campaign has assisted more than 60,000 families to become homeowners. We have provided more than 350,000 individuals with home buyer education and counseling services. We have invested more than $5 billion in distressed communities. The Campaign for Home Ownership has achieved these outcomes by establishing aggressive goals and high standards for production and service delivery.

Over the next 5 years, the Campaign will create 50,000 new homeowners, 59 percent of whom will be minority households; assist 50,000 families to preserve home ownership and improve their homes; and reach a half a million families through home buyer education.

In fiscal year 2002, Congress provided Neighborhood Reinvestment with an appropriation of $105 million; and the NeighborWorks network achieved new levels of production, including generating nearly $1.7 billion in direct investment to targeted communities, making available affordable housing opportunities for nearly 70,000 families, providing home buyer education and counseling services to over 68,000 families, and leveraging $15.80 in other investments for each dollar Congress appropriated to Neighborhood Reinvestment.

For fiscal year 2003, Congress funded us at the President's request of $105 million. I look forward to reporting our outcomes to you next year.

For fiscal year 2004, we are requesting an appropriation of $115 million. Most notably, we will assist the NeighborWorks network to leverage nearly $2.2 billion in direct total investment, use each dollar Congress appropriates to leverage $18 from other sources, assist nearly 79,000 families to obtain and maintain safe and affordable rental and homeownership housing, provide homeownership counseling and financial literacy training to nearly 84,000 families, and disburse 69 percent of our congressional funding in the form of grants.

Mr. NEY. I wanted to note that time is expiring.

Ms. LAZAR. Let me close by thanking the committee for the opportunity to brief you on our work. The congressional support is a valuable asset to more than 2,300 communities across this country, and your continued support is vital to building healthy, strong and safe communities.

[The prepared statement of Ellen Lazar can be found on page 100 in the appendix.]

Mr. NEY. I want to thank all of the witnesses.

I do have several questions. First of all, we appreciate you coming to the Hill. It is important that we have a dialogue and continue to do this.

Due to the nature of time, the first panel ran so long I am going to submit my questions to you. They are important to me and I think important to the committee, but I am going to submit them to in writing to you, and I will yield to Mr. Frank.

Mr. FRANK. I didn't have time to write them down, so I have got to ask them.

On rural housing, I am very concerned about the 515 program. I agree it has been a very valuable program. I am afraid that through a combination of the law, the Court decisions we have seen and the appropriations process, we are losing the units. I think they are a very valuable asset.

What is the plan that you have to deal with the preservation issue? And if we don't change policy and if we were to continue the level of appropriation for the next year that is asked for, what is the future of this inventory?

Mr. GARCIA. I agree, Ranking Member Frank, that our 515 program is a national asset. We certainly hear you, and we certainly are putting together plans that will preserve——

Mr. FRANK. Right now, what does it look like? What is your estimate? My sense is that, with the appropriation being asked for and some legal issues that we have got——

Let me be clear. I think we probably have lost what we might have thought were the rights of some people to stay in the program. But my understanding is that there are people who are in this program who would be willing to stay with the right incentives, and we are not giving ourselves enough money and offering enough money to do that. So if you would do a projection forward, what is your projection? How many units are we likely to lose?

I am told, for instance, that we have 100,000 units subject to prepayment, which is about nearly a quarter of the inventory, better than 20 percent of the inventory. We are now losing more units than we are creating. Is that accurate?

Mr. GARCIA. Yes, sir.

Mr. FRANK. What are we doing about it?

Mr. GARCIA. First of all, we are seeking out faith-based and nonprofits where we can come in and say, somebody wants to prepay out of our program. What we do is we help to facilitate the nonprofits and these faith-based agencies who want to stay in our program long term and help facilitate the purchase from the faith-based to the people who are looking to get out of our program. That is one of things that we——

Mr. FRANK. That is very promising. Do we put any money in for that, or do they? The problem we have, I guess, is this: these are people who got the subsidies and in some cases, because of market forces, the housing is now worth a lot more than it used to be. Are we asking these nonprofits, faith-based and others, to come in and pay a high market price but then run them at a subsidized rental level or a limited rental level?

Mr. GARCIA. No, sir. What we are doing is we are financing the equity in the property.

Mr. FRANK. With Federal funds?

Mr. GARCIA. With Federal funds. Exactly. So it makes much more sense.

Mr. FRANK. I agree. So we are losing—it is a cooperative arrangement, so that we buy down, in effect, the market value so that they can then keep it.

How much have you asked for in the fiscal 2004 budget for that purpose?

Mr. GARCIA. $70.8 million.

Mr. FRANK. $70.8 million. I thought some of that was for rehabbing existing units physically? Is that all for purchase, for facilitating the purchase of units for preservation purposes?

Mr. GARCIA. On our figures for——

Mr. FRANK. I was told that, in 2004, the funds requested for the rental housing account were $71 million, $70.8. How much of that would go for the program you just talked about?

Mr. GARCIA. Okay. About $70 million for rehab and $50 million for—70 percent for rehab.

Mr. FRANK. Of the $70 million? That is about $50 million for rehab. So that leaves us $20 million for facilitating the purchase. What is the per-unit cost of trying to preserve a unit with this system? Do we know? What percentage of the 100,000 units that are out there that are at risk, how many of them would we save with $20 million?

Mr. GARCIA. Okay. About 15,000 per unit per rehab and for equity.

Mr. FRANK. It can't be the same for rehab and for equity.

Mr. GARCIA. Combined. I am sorry. That is combined.

Mr. FRANK. You said we have got $20 million in the fiscal 2004 budget for preservation in the legal sense, as opposed to the physical rehab.

Mr. GARCIA. Right.

Mr. FRANK. How many units will we save with $20 million?

Mr. GARCIA. Apparently, we do not have the information, but we will be glad to submit that back to you.

Mr. FRANK. Well, Mr. Garcia, I am glad you value the program. But, to be honest, how in the world did you come up with that number if you didn't know how many units that is going to save? Is that what OMB gave you and you were happy to get it?

Mr. GARCIA. I don't have that information. We will submit that.

Mr. FRANK. I am unimpressed that this is as high a priority as it ought to be, when you can't give me those numbers. I think preservation of these units ought to be—from the efficiency standpoint—I think you get the best bang for the buck with this kind of preservation.

You want to bring the faith-based in, et cetera. I am not impressed by what seems to be a lack of attention to this.

Thank you, Mr. Chairman.

Mr. NEY. I will talk with the ranking member. Maybe we ought to do additional hearings on rural housing.

Mr. FRANK. On the preservation thing, I would be glad to do that.

Mr. NEY. The Chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and place the response in the record.

Thank you for coming to the Hill.

[Whereupon, at 1:30 p.m., the committee was adjourned.]

A P P E N D I X

March 5, 2003

Opening Statement

Chairman Michael G. Oxley

House Committee on Financial Services

Subcommittee on Housing and Community Opportunity

"The FY 2004 Housing Budget Proposal"

Wednesday, March 5, 2003

Today the Committee welcomes back HUD Secretary Mel Martinez. I'd like to note that this is the Secretary's third time before this Committee to speak on the Administration's budget proposals. He's also been before the Committee on other housing topics, such as reform of the Real Estate Settlement Procedures Act.

We appreciate all the work that you do and we truly understand that in these difficult times you have exhibited the type of leadership necessary to move the Department of Housing and Urban Development and federal housing policy in the right direction. For that we are grateful.

Today Secretary Martinez will explain the Administration's FY 2004 budget proposal. There are several bold initiatives that will command the attention of this Committee. It's always been my policy that we should have a thorough understanding of the issues and then let the Committee work its will to foster a housing policy that is comprehensive, that maximizes the taxpayers' investment in housing and economic development and that makes common sense.

Around the country, national and local newspapers are running articles about housing. In some cases, it's about the public, private and non-profit partnerships that make housing affordable. In other cases, it's about expensive urban centers that no longer have affordable housing for those working families making minimum wage salaries. Or it's about rural areas where economies of scale do not allow for the building of affordable housing. As always, we can do better.

Today's witnesses, including Secretary Martinez, will address different perspectives of our federal housing policy.

The Administration's housing budget proposes to, among other things:

- convert Section 8 tenant-based housing vouchers to state-managed block grants with a transition period in FY 2004 and full implementation in 2005;
- provide a new FHA product for subprime borrowers, which will assist many homeowners who have been locked out of traditional mortgage finance markets;
- provide an additional $200 million for the American Dream Downpayment Initiative, which will assist low-income families whose only barrier to homeownership may be difficulty in saving for a downpayment; and
- enhance single family direct loan programs in the Rural Housing Service to provide more homeownership opportunities for very low-income families in rural areas.

The proposed budget also plans to eliminate some programs that I know are important to Members of this Committee. This will be an opportunity for the Secretary to explain those changes as well as how the Administration intends to continue addressing the issues through different programs.

Because the Housing Subcommittee also has jurisdiction over the National Flood Insurance Program, which plays a key role in homeownership, the Administrator of the flood program will address its budget proposal as well.

Let me say welcome to Secretary Martinez, the Rural Housing Administrator Art Garcia, Federal Insurance Administrator Anthony Lowe, and the Executive Director of the Neighborhood Reinvestment Corporation Ellen Lazar. All of you represent agencies that have made a worthwhile contribution to housing policy and your comments today will be most helpful in assisting this Committee in its work.

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STATEMENT OF THE HONORABLE
Wm. Lacy Clay
Before
The Committee on Financial Services

"FY2004 Housing and Urban Development Budget"

March 5, 2003

Good morning Mr. Chairman, Members of the Committee and witnesses.

Mr. Chairman, I am painstakingly searching for the overall good in this budget. It must be there because I have been told, by some, that this is a good budget and that it will improve the nation's housing programs. Perhaps the good is there, but hidden under the glare of draconian cuts to Hope VI (the program is still there, just no funds). Perhaps it is hidden by my attention and resulting dismay at the cuts in operating and capital funds of the Public Housing Authorities. By the way, what is the amount of the cut? Is it 10%? 30%? These figures changed as the groundswell of public criticism indicated that the American people would not stand for the gutting of programs that was initially intended to provide housing for those who would not have adequate housing except for these programs. However, PHAs all over the nation are still confused as to their level of operating funds. Congress exceeded HUD's request by 2% and the President signed it. Why the cuts?

This budget is an outright attack on the nation's most vulnerable, the elderly, the unemployed, working poor, and low and middle income individuals and families. Combining the cuts for Section 8 housing assistance, it amounts to over $1 billion. The voucher program will not service the numbers that were there last year, forget about any additions. To take the voucher program from the local authorities who have an intimate knowledge of their local needs is not a smart move at all especially when one considers the $100 million transfer costs.

Why raise the cost to our poorest families with a rent increase? Though it is advertised to require a payment of at least $50 per month, it actually has no ceiling and will allow the long standing protection of families paying no more than 30% of income on rent.

I have concerns about CDBG block grants, Brownfield development grant elimination, and Rural Housing and Economic Development Grants.

Mr. Chairman, I ask unanimous consent to place my remarks in the record.

OPENING STATEMENT OF REP. ARTUR DAVIS
Hearing on FY2004 Housing Budget
Before the Committee on Financial Services
March 5, 2003

Mr. Chairman, Mr. Frank, members of the Committee on Financial Services, good morning and thank you for the opportunity to share my thoughts on the impact the President's proposed housing budget will have on rural communities across the United States, like the Seventh Congressional District of Alabama.

The President's budget proposals for the Department of Housing and Urban Development (HUD) and the Department of Agriculture's Rural Housing Service (RHS) will have a dramatic impact on programs and capital infusion in the Seventh District. I see nothing in these two budgets that can help the impoverished people of my district lift themselves out of poverty. In fact, this budget will depress economic growth for a region already in depression.

Let me briefly paint you a picture of the region I am talking about. It is the nation's Delta Black Belt region; 14 states located predominately in the southeastern and central region of the country. The area is characterized by unemployment that doubles the national average, by poverty that consistently exceeds 30 percent, by double-digit rates of teenage pregnancy, by schools that struggle on starvation budgets, and by inadequate access to healthcare. Still reeling from a two decade long erosion of its job base and still burdened by a legacy of racial and economic discrimination, this region has been left out of the economic growth and prosperity experienced by the rest of the country. It is the poorest region in the United States, a slice of Third World demographics in our own backyard.

Unfortunately, there is no need to exaggerate these terms. Currently, one-quarter of rural Americans spend more than 30 percent of their income on housing, including 2.1 million rural households that spend more than half their incomes and 2.5 million that spend between 30 and 50 percent of their incomes. This year, when the deficit created by the Administration's tax cuts is projected to be $304 billion, the President proposed eliminating the few programs that could spark economic development in rural areas, including the Office of Rural Housing and Economic Development, the Brownfields Redevelopment Program, the Empowerment Zones/Enterprise Communities program, the HOPE VI program, and USDA's Rural Community Development Initiative.

The Administration's cuts also reduce funding for the Rural Housing Services Section 515 multifamily housing program by 37 percent (from $114.1 million in FY2002 to $71 million in FY2004) and prohibit the use of these funds for new construction. Devastating cuts with a dramatic impact in just the first year.

Consider what happens to our commitment to rural areas in the out-years, when the country is facing a $2.1 trillion deficit. We will be faced with the harsh choice between assisting them and digging the larger economy out of its deficit hole. This is an illusory choice because the country's economic future depends on its fastest growing region – the South – and the economic future of the South depends on our capacity to invigorate the part of that region that has been left behind.

Ladies and gentlemen of the Committee I ask you, as we proceed with our discussion to keep in mind the serious consequences these two budgets have for rural communities: reducing the amount of rental stock available, which our neediest citizens depend on for housing; hindering the ability of rural communities to create a better quality of life for themselves; and driving residents and industry out of our rural areas.

Honorable Rahm Emanuel
U.S. House of Representatives
Committee on Financial Services
Hearing on FY2004 HUD Budget
March 5, 2003

I'd like to thank Chairman Oxley for holding this important hearing on the Fiscal Year 2004 HUD budget. I also appreciate that our distinguished guest, HUD Secretary Mel Martinez, has taken the time to share his views with us on this topic.

Before my election to Congress, I was fortunate to serve as Vice-Chairman of the Chicago Housing Authority and as a Freddie Mac Board member. In those capacities, I saw firsthand the teamwork between public and private entities that's required to make affordable housing available to hardworking families. When a family is able to build equity in a home, they've taken the first step on the road to creating a solid financial foundation. My home city of Chicago has succeeded in developing affordable housing programs because of the commitment of the city government agencies, Mayor Daley's office, private sector entities like Fannie Mae and Freddie Mac, and many other state and local organizations. Programs like City Mortgage, New Homes for Chicago, HouseChicago and the Chicago Homeowners Assistance Program have been successful because of the commitment of public and private sector entities to community building. However, despite the successes we have had, much remains to be done, both in Chicago and around the country. That's why I'm so disappointed in the Administration's FY2004 budget proposal.

Although I disagree with many of Mr. Bush's proposals, I'm hopeful that this hearing will be the start of a productive dialogue on affordable housing issues. We Democrats are ready to work with the Administration; but at the same time, we won't stand idly by and allow President Bush to pull up the ladder of opportunity on our low-income families and their communities.

I'd now like to touch on a few specific concerns I have with the FY04 HUD budget:

The proposed HUD budget is inadequate, both in comparison to need and to historical standards. It makes deep cuts in public housing, block grants, and the Section 8 voucher program. The plan also completely abolishes important programs that have strong bipartisan support, such as the Hope VI program. It's wrong to cut HUD funding for those who need our help the most, while at the same time cutting taxes for the wealthy. These cuts will negatively impact thousands of public housing authorities and literally millions of low-income families, seniors, and disabled individuals who rely on public housing for a roof over their heads. Additionally, Mr. Bush's Section 8 block-grant proposal will move administration of the program away from the families being served, and will reduce the number of families that housing authorities are currently authorized to offer vouchers to. Moreover, the proposal removes local flexibility to create hardship exemptions--replacing it with an unworkable, system whereby families would apply directly to the HUD Secretary for an exemption. President Kennedy once said that to govern is to choose, and Mr. Bush has made his choices.

I am also dismayed to hear that HUD continues to fund public housing at only 70% of its operating expenses. I've spoken to the leaders of several public housing agencies regarding this matter, and they told me this action will result in layoffs, cuts in services, and delays in the preparation of rental units for re-lease. I commend my colleagues, Mr. Frank and Ms. Waters, for their recent request of Secretary Martinez to honor HUD's commitment to raise the level of Operating Fund assistance for public housing authorities to at least 90%.

Perhaps the most egregious proposal in the HUD budget is the rent increase for our poorest families--public housing and Section 8 recipients. The Administration's proposal requires all public housing and Section 8 recipients to pay rent of at least $50 a month. This means that our most destitute families face rent increases of $600 or more per year. It's unconscionable for the Administration to crack down on the very poorest people in the United States while at the same time proposing huge tax cuts for those who need them the least.

Finally, the proposed HUD rule on "faith-based" organizations raises many more questions than it answers. The proposal confers special rights on religious organizations; namely, the right to engage in various forms of federally-funded employment discrimination that other HUD grantees can't do. The Administration has acknowledged that some forms of discrimination are allowed and implies that some other kinds would not be. Yet, they have refused to add explicit anti-discrimination clauses to the proposed rule. As a result, many of these issues will have to be litigated. In fact, the Justice Department is already on the case for the Administration, issuing interpretations stating that such discrimination is both permissible and constitutional. Aside from the issue of overt discrimination, the Administration hasn't addressed other key questions arising under the proposal. As we all know, Mr. Bush's budget proposals will stretch an under funded HUD even thinner. So how does the Administration propose to fund this new proposal? How will they monitor compliance? Won't this program take resources away from the administration and oversight of other HUD programs? These are just a few of the issues that have not been addressed.

Once again, I extend my thanks to Secretary Martinez for appearing before this Committee. I firmly believe that we can frankly state our differences and still have a constructive dialogue. I look forward to working with my colleagues and the Administration as we continue our efforts to make affordable housing a reality for our families and communities.

March 5, 2003

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Full Committee Hearing on the Fiscal Year 2004 Housing Budget

Mr. Chairman, I would like to thank you for holding this important hearing and allowing all committee members an opportunity to speak directly with agency officials regarding proposed budget levels for Fiscal Year 2004. I would also like to thank Secretary Martinez for making himself available to us this morning.

I look forward to learning the rationale behind the changes detailed in the President's budget proposal for the Department of Housing and Urban Development (HUD). Specifically, I am interested in hearing more concerning the state-run block grant design for the Section 8 Rental Housing Assistance Program, as many of my constituents benefit greatly from such assistance.

Additionally, as the sponsor of the HR 2869, the Small Business Liability Relief and Brownfields Revitalization Act, which became public law during the 107th Congress, I would like to hear an extended explanation for the elimination of funding for the Brownfields Economic Development Initiative (BEDI). As our witnesses may be aware, this committee recently approved HR 239, the Brownfields Redevelopment Enhancement Act, which would provide local governments with greater flexibility to rehabilitate brownfields sites, provided the BEDI program within HUD remains in existence.

Again, I thank the witnesses for coming before us today and look forward to an informative session.

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Statement of Congressman Steve Israel
Committee on Financial Services
Hearing on Housing Related Agency Budgets
March 5, 2003, 10:00 a.m.

Mr. Chairman, thank you for giving us the opportunity today to examine HUD's budget and its proposals for the coming fiscal year. Mr. Secretary, I understand how busy you are and I want to thank you for making the time to come in today to talk with us.

Mr. Chairman, much of this Committee's time will be taken up with the issue of housing in our largest cities. But I want to raise the issue of housing in our suburban communities, an issue that I feel has been overlooked.

As you know, I come from a community considered to be a suburb of New York City. I am sure that when many think of Suffolk County they think about lush lawns and big backyards. For some in my district, that is the reality.

But for many others, the reality is far bleaker.

According to the U.S. Census Bureau, 26 percent of Long Island households pay more than 35 percent of their gross monthly income on either rent or mortgage. For over fifty years Americans have been cautioned to keep housing expenses under 25% of their income. The 35% average is a genuine crisis.

The median sales price of an existing home on Long Island is over $287,000, making it impossible for many to buy a house. Well, you might think they should rent. After all, rent must be cheaper in Long Island than it is in the city. The reality is far different: the fair-market rent for a two-bedroom unit in New York State is $834. In New York City, the same unit rents for $949. On Long Island, a two-bedroom unit rents for $1,173!

24.3% of Suffolk County renters and 13.9% of homeowners are spending more than ***fifty percent*** of their incomes for housing, including taxes. Monthly housing payments consume more than 30 percent of the incomes of roughly 235,000 Long Island homeowners and 78,000 Long Island renters - roughly one-third of all housing units on the Island.

The lack of affordable housing on Long Island is not merely about families having to pay too much. It is a problem that permeates every part of our community's life. Young people are forced out of our region. Jobs are disappearing as companies decide they can no longer depend upon a solid workforce. And our communities are dissolving as the very foundation on which that community was built erodes.

On June 9th of last year David Broder wrote a column on the state of housing policy. He opened the column with the following statement:

> "You could call it the forgotten issue -- except for the fact that in almost every city I've visited this year, from Sacramento to Tallahassee to Boston, the shortage of affordable housing is close to the top of people's concerns."

Mr. Chairman, thank you again for holding this important hearing. The people of Long Island are depending on you to make sure that housing is not "a forgotten issue."

OPENING STATEMENT OF

REPRESENTATIVE JIM MATHESON

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

Department of Housing and Urban Development: Fiscal Year 2004 Budget Request

Mr. Chairman, Mr. Frank, members of the committee. I want to join you in welcoming Secretary Martinez today. I believe that the activities of the Department of Housing and Urban Development are some of the most important and the most valuable aspects of this committee's jurisdiction. I am grateful for this opportunity to inquire further about the Administration's plans for programmatic changes and funding of HUD within Fiscal Year 2004.

The importance of many of HUD's activities has been raised in my mind as many individuals throughout my state have felt the effects of an economic downturn. A sluggish economy has heightened the need for assistance in finding shelter, having a stable rent for a fixed income, or being able to achieve homeownership. Housing is always an integral part of survival and an essential element in the American dream. In many ways, when considering the lives of individuals, housing is one of the most important priorities.

For this reason I appreciate this opportunity to learn more about the Administration's proposals. I do not approach them in a partisan fashion. I believe that good ideas can come from any political party and ought to be embraced, no matter what the source. I think this is the independent, thoughtful approach that new ideas deserve. I am very supportive of the Administration's goals to reduce homelessness and increase homeownership. However, I have several concerns with the recent proposals that I would like to outline and about which I hope to learn more during this hearing and throughout the upcoming months as Congress considers them in more detail.

My first area of concern is related to the proposal to block grant Section 8. Historically, Section 8 has been administered directly through the local housing authorities that have budgeted, planned, and worked to administer this program based on the needs of their communities. I am concerned about the states' abilities to be as responsive to individual families. I am concerned about the allocation of vouchers and funds if they come through the states. I am concerned about the total number of vouchers that will be available to my constituents in particular regions. I would hope to gain some clarification on how this change is envisioned and what role the states would play. Initially, my inclination is to prefer fewer layers of bureaucracy.

In addition, I would like additional insight into the new minimum rent that has been proposed. I know how much many of my constituents, often the elderly and the disabled, struggle to pay for rent, food, utilities, and their prescription drugs now. I do not know how some of them could afford such changes, especially if their local housing authorities do not have flexibility to tailor programs to their needs. I am concerned about the burdens on these individuals.

Proposed decreases to operating funds for housing authorities shortly following cuts in capitol improvement funds may significantly strap local housing authorities. In my state there are not surplus funds going to administrative purposes for such programs. I need more informatio n on this proposal.

In addition, there are several programs about which I am interested in better understanding the Administration's vision. The new Public Housing Reinvestment Initiative may have some promise for generating revenue, if in its implementation the level of affordable housing stock is at least maintained. However, there has not been sufficient information provided on the details of this proposal. The Neighborhood Reinvestment program and CDBG are critical to many in my community, but are not keeping up with inflation. I am interested in the long-term vision for these programs.

I also have concerns related to restrictions on HUD funding, such as those that exist related to lead based paint. Often these restrictions get in the way of effectively using HUD funds for necessary renovations. I would like to learn about any proposals that may help to increase the effectiveness of such programs.

Finally, I would like to raise an issue not integral to the FY 04 Budget, but important to my constituents. Specifically, the implications of extensive audits that HUD has recently conducted on HUD Outreach and Training Assistance Grant contractors. The funding suspensions that have accompanied these audits have left grantees in my state operating for the last six months without reimbursement. They are very concerned about having HUD respond to the audits and reactivate their funding, since they have been responsive to all the results of the audits. I would appreciate knowing what plans are in place for an expedited resolution of this situation.

Mike Turner

Statement for the Record
The Honorable Michael R. Turner
Member of Congress

Submitted to the
U.S. House of Representatives Committee on Financial Services

March 6, 2003

Chairman Oxley and Ranking Member Frank, Housing and Community Opportunity Subcommittee Chairman Ney and Ranking Member Waters, I am submitting this statement in support of several initiatives of the Neighborhood Reinvestment Corporation (NRC) whose executive director, Ellen Lazar, testified before the full committee on March 5, 2003 regarding housing-related agency budgets for FY2004.

I would like to highlight several areas of NRC's activities and the assistance it has given to a Community Development Corporation (CDC) in my district. The NRC, which received $105 million in the FY03 Omnibus Appropriations Act, provides valuable revolving loan funds, consulting and technical assistance to CDC's. According to the NRC, in FY2002 the Corporation generated nearly $1.7 billion in direct investment, made affordable housing opportunities available for nearly 70,000 families, and leveraged $15.80 in other investments for each dollar that Congress appropriated to NRC.

The St. Mary's community development corporation is active in housing and economic development in Dayton, Ohio and has had a great experience working with NRC. St. Mary's first qualified for NRC assistance in 1999 after operating for several years without federal technical assistance. Recently, the NRC advised St. Mary's during the development of their five-year strategic plan which will help St. Mary's provide more effective and efficient services to the Dayton community. Additionally, St. Mary's staff and board members have attended NRC workshops and training sessions that have been a valuable resource to expand the knowledge and expertise of those who work directly in the community. Boosting the education and know-how of those engaged in community development has always been a priority. I am pleased to see NRC provide the much-needed help. Energetic and well-trained people help us leverage every penny of community development dollars more effectively.

Since FY2002, St. Mary's has received over a half million dollars worth of grant funding through NRC. The majority of these grants were designated for St. Mary's 400 Low-Income Tax Credit apartments for the elderly. In FY2003, St. Mary's received nearly a half million dollars from NRC, most of which will help fund the Wright Cycle Senior apartment development.

I look forward to the continued successful collaboration between NRC and St. Mary's and the other CDC's in the Third District of Ohio. The President requested $115 million for NRC in his FY2004 budget, and I urge Committee members to support this figure.

I thank the Committee for considering my statement.

Statement of Arthur A. Garcia
Administrator, Rural Housing Service
U.S. Department of Agriculture

Before the
Committee on Financial Services
United States House of Representatives
Washington, DC

March 5, 2003

Regarding
Fiscal Year 2004 Rural Housing Service Budget

* * * * *

Mr. Chairman and members of the Committee, thank you for this opportunity to testify on the President's Fiscal Year (FY) 2004 USDA Rural Development proposed rural housing and community program budget.

Rural Development assists in making rural America a better place to live and work. Our rural housing loan and grant programs help to revitalize small towns and rural communities. Most of our customers are first-time homebuyers who turn to us because we, in many instances, provide the only opportunity to share in the benefits of homeownership. As Secretary Veneman said last fall, "homeownership strengthens our rural communities and contributes to the overall quality of life for rural families. USDA works with community organizations, lenders and individual residents to provide opportunities to the millions who seek the dream of owning a home." We are called upon to be citizen-centered in President Bush's management agenda. We have responded to this call with programs that help rural families purchase homes and gain access to affordable rural rental housing, and we provide financing for essential community services, such as facilities for health care, police and fire protection, adult day care, child care, and educational institutions.

For more than 50 years, Rural Development has assisted some of our Nation's poorest people who reside in the most remote areas of our country. Whether on Indian reservations in the Dakotas; the Colonias along the Mexican border; the isolated pockets of the Appalachian mountains in West Virginia; or the Mississippi Delta, our programs provide the essential link to individuals, communities, and financial markets so that all rural residents may share in our Nation's prosperity and enjoy basic human dignities of housing and community facilities.

Let me share with you how we plan to continue improving the lives of rural residents under the President's FY 2004 budget proposal for our rural housing programs.

SINGLE FAMILY HOUSING PROGRAMS

We are proposing an increase of approximately $400 million more for Single Family Housing (SFH) direct loans. With the $5.67 billion total program funding, more than $4 billion will be used to make guaranteed and direct SFH loans. These funds will assist nearly 49,000 rural families to purchase homes, and most of them will be first-time homeowners. Of the SFH funds, $2.3 billion will be available as loan guarantees with private partners to help approximately 28,500 low- and moderate-income families become new homeowners. An additional $225 million in loan guarantees will be used to refinance loans for approximately 2,500 rural families in order to make their payments more affordable. We will fund another $1.4 billion in direct loans and assist nearly 18,000 low and very low-income families who cannot obtain credit to purchase homes without a down payment, or who cannot meet the loan terms offered through most lenders. In addition, the FY 2004 budget includes $35 million in direct loans and $31.5 million in grants to approximately 12,000 elderly and disabled families or individuals to repair or rehabilitate their homes to decent, safe, and sanitary housing.

The subsidy cost of the SFH direct loan program will be less expensive in 2004 due primarily to lower interest rates and more accurate projections of the financial status of our borrower population. This cost savings will enable Rural Development to help more families obtain homeownership and lowers the cost to taxpayers to about $7,000 per home financed. The loans that we guarantee in the private sector cost slightly less than $1,500 per home. For rural Americans with very-low, low, and moderate incomes, the SFH direct and guaranteed loan programs continue to be the most cost-effective housing programs available.

Five-Star Commitment to Increase Minority Homeownership

President Bush has made a commitment to remove the barriers that stand in the way of our Nation's minority families from obtaining homeownership.

According to the 2000 census data, minorities represent about 13 percent of rural Americans. Almost 24 percent of the individual home purchases and repair loans, grants and loan guarantees administered by Rural Development in FY 2002 went to minorities. In addition, more than 60 percent of the loans and grants were made to women or female-headed households. We also help disabled families remodel, build and afford barrier-free access to housing.

We can do even better.

To implement the President's vision, Rural Development's Under Secretary Tom Dorr recently announced the **USDA Five-Star Commitment** to expand rural minority homeownership. This commitment will help make housing available to all rural Americans by:

- Lowering fees to reduce barriers to minority homeownership;
- Doubling the number of Mutual Self-Help participants by 2010;
- Increasing participation by minority lenders in our rural housing programs;
- Promoting credit counseling and homeownership education; and,
- Monitoring lending activities to ensure that we attain a 10 percent increase in minority homeownership.

Lowering Fees to Reduce Barriers to Minority Homeownership

To encourage more minority participation in the guaranteed single family housing loan program, Rural Development recently reduced the guarantee fee to make homeownership more affordable. Our goal in reducing the up-front costs is to increase homeownership opportunities for low- and moderate-income borrowers, particularly minorities. The fee was reduced from 2 percent to 1.5 percent for purchasing a home, representing an average savings of $435 per family. Also, the fee was reduced from 2 percent to 0.5 percent for refinancing a guaranteed loan, representing an average savings of $1,305 per family.

We closely monitor the other fees charged by participating lenders in our SFH guarantee program to ensure that fees charged are reasonable. Further, we work closely on the local level with local non-profits, which provide our first-time buyers with homeowner education training, credit counseling, and assistance in obtaining grants for closing costs and other basic homeowner assistance.

Doubling the Number of Self-Help Participants by 2010

The FY 2004 budget request includes $34 million for the section 523 Mutual Self-Help Technical Assistance grant program. In FY 2002, Rural Development partnered with more than 140 groups to help provide homeownership opportunities to rural families through this 'sweat equity' program. Last year, nearly 1,500 families built their homes through the Self-Help program, representing about 10 percent of the total SFH direct loans. Self-Help grantees assist groups of six to twelve families as they work together to build their own neighborhoods. They provide homeowner education, guidance through the loan application process, and supervision and technical assistance in building their homes.

The individual successes of our Self-Help borrowers are proof of the life-altering affect of this program. One example is the Elsie and George Phillips family of Birdsong, Arkansas. This couple, now in their 80's, recently moved into the new home they helped to build – after living in a dilapidated trailer for the past 24 years.

Increasing Participation by Minority Lenders in Rural Housing Programs

Rural Development works with more than 3,000 lenders and other partners in our direct and guaranteed loan programs. Lenders in the guaranteed program range in size from small hometown banks to large nationwide lenders. One of our largest lenders, J.P. Morgan Chase (Chase), recently committed $500 billion to increasing minority homeownership, in part through our rural housing loan guarantees. Chase is the largest participating lender and services almost 40,000 rural housing guaranteed loans, totaling over $3 billion.

Rural Development field employees are trained to reach out to their respective communities, develop relationships, and enhance partnerships with lenders and others serving the housing needs of minorities in rural America.

Promoting Credit Counseling and Homeownership Education

Rural Development has partnered with the FDIC to use its MoneySmart program to provide homeownership education to our applicants. FDIC has provided training to our field employees on their program. MoneySmart provides an additional tool to assist in creating successful homeowners.

Locally, rural housing partners with many federal and state agencies to assure low-income applicants have access to homebuyer education. These programs, many funded through HUD's HOME program, provide homeownership education and credit counseling. We have established effective working relationships with public and private groups offering these services to rural communities. Our goal is to assure that homebuyer education programs are available in all rural areas.

Monitoring Lending Activities

Increasing minority homeownership is a serious matter for us. We have established goals at the National and State Offices. These goals are performance-based and at each level of the organization, performance will be rated, in part, by achievement of the goals.

Rural Housing Programs More Important Than Ever Before

The Home Repair Loan and Grant Program helps very low-income families whose homes are in need of repair. The program is for those families who own a modest home in a rural area, but are unable to obtain financial assistance to repair their homes. The average annual income of households obtaining home repair assistance last year was under $10,000. Funds are used to make substandard homes decent, safe and sanitary through repairs and rehabilitation, including installation of indoor plumbing, new furnaces, weatherization, safe wiring, new roofs, and making homes accessible for persons with disabilities.

In its October 2000 report, Opening Doors to Rural Home Ownership: Outcomes from the National Rural Housing Coalition Rural Home Symposium, the National Rural Housing Coalition stated, "Although poverty has decreased to its lowest level in 20 years, almost all of the changes occurred in central cities and metropolitan areas. Rural homeowners are more likely than homeowners as a whole to live in substandard housing."

In its December 2002 report Taking Stock: Rural People, Poverty, and Housing at the Turn of the 21st Century, the Housing Assistance Council stated: "Minorities in rural areas are among the poorest and worst housed groups in the entire Nation, with disproportionately high levels of inadequate housing conditions. Non-white and Hispanic households are nearly three times more likely to live in substandard housing than white rural residents."

The FY 2004 proposed budget contains $66.5 million to assist up to 12,000 families with incomes below 50 percent of the area median income. This includes $35 million in home repair loan funds for 6,000 very-low income families and $31.5 million for grants to assist a comparable number of elderly homeowners.

Jaime Morales moved to the United States in 1990. In 2002, he and his wife, Maria, were able to purchase their own modest home in Horizon City -- near El Paso, Texas -- for less than $20,000. However, as with many homes in the Colonias, their house lacked adequate plumbing and needed other repairs. Jaime could do much of the work needed on the house, but with limited income from work at a pallet shop, the plumbing would have to wait. A Rural Development grant of $3,320 has changed that by paying for a connection to a public water system, the Lower Valley Water District. We provided funding for piping, a sink, commode, water heater inside the house, and installation of an individual septic system. This grant has truly improved the living conditions of Mr. & Mrs. Morales and their son, Jaime, Jr.

We have a very successful record of working with private and nonprofit organizations to increase homeownership in rural communities. In FY 1996, only about 8 percent of the SFH direct loans were leveraged with funds from additional sources, such as other bank loans, or obtained down payment assistance and other grants. In that year, these other funding sources provided only 3 percent of the total cost of the home purchase. Last year, more than 55 percent of the loans were leveraged, with other sources contributing more than $120 million. This enabled us to assist an additional 2,000 families to own their home – an expansion of tax dollars of more than 12 percent.

MULTIFAMILY HOUSING PROGRAMS

Rural Development's Multi-Family Housing (MFH) program creates tremendous housing opportunities in rural America, and at the same time, stimulates local economies.

With the request of just under $1 billion -- $981,497,000 -- in the President's FY 2004 budget, we will use $70.8 million of MFH direct loan funding to provide much-needed repairs or rehabilitation to approximately 5,900 of the 17,500 rental properties in the multi-family portfolio. These apartments provide decent, safe, sanitary, and affordable residences for more than 450,000 tenant households.

Since we are not proposing FY 2004 funding for new construction, our budget includes $100 million in guaranteed loans that may be used for new construction. In addition, the request includes $42 million in loans and $14 million in grants for section Farm Labor Housing living units — most of which will be new construction.

Under the President's FY 2004 budget, MFH guarantee loans will build 2,400 apartments and repair, rehabilitate and pay incentives to owners on 5,900 apartments. In the Farm Labor Housing program, over 1,700 apartments will be built or repaired. These programs provide year-round homes to migrant and farm workers. Providing adequate housing to the workers who provide field labor to process agricultural products is essential to having a dependable and available workforce.

According to the National Association of Home Builders, building 100 multi-family homes generates $5.3 million in local income in the year of construction, and $2.2 million every year thereafter. These same 100 multi-family homes create 112 local jobs in the first year of construction, and 46 jobs every year thereafter. They contribute $630,000 in local government revenues in the first year of construction, and $384,000 every year thereafter, for a total of $4.1 million over 10 years. Investing in multi-family housing builds economic stability in rural communities.

Together, the MFH and Rental Assistance (RA) programs provide decent, safe, and affordable housing to families who need it the most. The MFH direct loan program is the largest of the MFH programs, and is a principal source of multi-family housing for the elderly in rural America. Non-elderly households making up approximately 45 percent of the residents in the MFH program. In this program, we make 1 percent interest loans to private individuals, state and local housing agencies, and non-profit organizations, who build apartments and offer them as rental housing, primarily to very low-income senior citizens and working mothers. The incomes of these households average about $8,100, well below the poverty level.

Nearly 20 percent of our resident population – some 90,000 households -- pay more than 30 percent of their monthly income for rent. The President's FY 2004 budget requests $740 million for RA to ensure the integrity and financial stability of MFH and Farm Labor Housing loan and grant programs. In FY 2004, well over 93 percent of the RA budget will be used to renew more than 42,000 RA contracts so that elderly, disabled, and female-headed resident households remain in safe and livable rental apartments they call home. The remainder of the RA funding will be used to keep rent affordable when repair and rehabilitation are needed for existing units. Rental assistance ensures that rural Americans have barrier-free access to affordable, decent, sanitary, and safe rental homes. Today's residents represent tomorrow's first-time homeowners who also dream the American dream of homeownership.

Preservation Strategy

This fiscal year is the first year since inception of the program in 1974, that we will direct all of the MFH direct loan program funds to the repair or rehabilitation of our aging $11.9 billion portfolio. We have adopted this strategy to address the major preservation issues facing a significant portion of the MFH portfolio.

Approximately 70 percent, or 450,000 apartments in the portfolio are over 15 years old. For these programs to remain viable, we must now address the property's long- term physical needs.

Over the past year and a half, we have faced the possibility of losing affordable housing due to borrower prepayment. In 1979, 1988, and 1992, Congress passed legislative changes to the MFH programs to restrict a borrower's ability to prepay their loan, thereby protecting residents from displacement. With an average income of only $8,100, MFH residents are extremely vulnerable to displacement when prepayment occurs. Recent legal actions brought by borrowers have challenged the statute that governs the MFH prepayment process. The future of the MFH program will require continued strategic and tactical planning and execution to keep affordable housing available to our residents. Our methods will include a combination of changes to the program, program incentives to owners, and the establishment of new partnerships with state and local housing agencies, non-profits, and faith-based organizations, whose commitment to rural communities is long-term.

It is more important than ever that we pursue an effective strategy for managing the MFH preservation process as the portfolio ages. We continue to examine possible solutions to these issues, including methods of protecting existing residents, reducing barriers to non-profit and public body participation, making improvements to the regulatory process to streamline preservation activities, and further addressing prepayments. We are making decisions critically and judiciously to determine those projects that may no longer be needed in communities and allowing those to migrate from the program. In most instances, however, where we determine that MFH continues to be needed, we must fight hard to keep properties in the program and maintain the flexibility to finance housing where it is needed. We look forward to working closely with you and your colleagues as we address the MFH program needs.

Rural Development's MFH program has a long proud history of working with faith-based organizations to provide housing to rural America. In fact, since 1975, we have made 125 loans to faith-based organizations and affiliation of faith-based organizations to construct more than 4,253 units of rental-assisted properties located in 24 states. More recently, several large national faith-based housing organizations have been very active in acquiring Rural Development-financed MFH properties that were in danger of being lost as affordable housing through prepayment. We encourage nonprofit organizations such as these to take over preservation properties, as the organizations often bring additional resident services to the properties. Additionally, their charters anticipate that they will remain owners in the program for a significant time period, thereby reducing the chance that a property will, again, be taken out of the affordable rural housing portfolio.

We are also examining industry-wide asset management practices to develop our MFH property's capital needs, such as roofing, exterior siding, major mechanical systems, window and door replacement, flooring, and rehabilitation of common areas such as laundry rooms, meeting rooms, and parking lots.

Based on housing industry standards and our own reserve requirements, owners will typically need about $10,000 per unit in rehabilitation funds every 8 to 12 years. Reinvestment of capital in these properties assures continued modernization of multi-family housing and protects the value of the property as collateral for the loan. Timing of these investments and adequacy of additional funding sources are aspects of capital risk management that must be considered. It is important to note that capital replacement is needed due to the normal aging of the physical building. We are working to determine the best methods to achieve these housing goals and will have a one-time comprehensive study of our portfolio conducted. We anticipate that the study will allow us to develop short-term and long-term strategies to manage and protect this $11.9 billion national asset.

COMMUNITY PROGRAMS

Along with decent and affordable housing, many communities also have a need for essential community facilities, such as educational buildings, fire, rescue, and public safety facilities; and child care centers, health care facilities, and day care and assisted living facilities for their increasing senior citizen populations. Having adequate community facilities not only impacts the quality of life for community residents, but also makes easier for communities to attract and retain businesses. Rural Development's Community Facilities (CF) direct and guaranteed loan and grant programs provide funding for these essential facilities.

The FY 2004 budget includes $477 million for the CF program: $250 million for direct loans, $210 million for loan guarantees, and $17 million for grants. This level of funding will allow us to continue the commitment to educational facilities, which are especially important in preparing rural children and adults to compete in the global economy.

In FY 2002, Rural Development assisted 134 communities by investing $46.7 million in buildings to house public schools, charter schools, libraries, museums, colleges, vocational schools, and educational facilities for the disabled. Rural Development also helped finance the purchase of computers and other technological equipment. Public safety is often a need in rural communities. In FY 2002, we invested $105.7 million in 537 facilities, including communications centers, police, fire and rescue stations, civil defense buildings, and related vehicles and equipment. An example is the recently opened Central Shenandoah Criminal Justice Training Academy in Virginia's Shenandoah Valley. Rural Development invested $3.8 million in direct loan funds and $2.3 million in guaranteed loan funds in this 56,000 square foot facility, which can train 280 students at one time. The curriculum ranges from basic law enforcement through the most technical and sensitive issues of homeland security and emergency preparedness. The academy's membership comprises 57 agencies, including local police and sheriffs' departments, emergency operations centers, regional jails, and private police departments. The facility is also made available to State and Federal agencies for independent training.

In partnership with local and state governments and Indian Tribes the CF budget will support more than 140 new or improved health care facilities, more than 130 new or improved fire and rescue facilities, and about 50 new or improved child care facilities in

FY 2004. These essential community facilities will create or preserve more than 30,000 jobs in rural America.

Centralized Service Center

The USDA Centralized Service Center (CSC) in St. Louis, Missouri, provides all written and oral communication to customers in either English or Spanish to better serve the needs of these customers. At the CSC, we have used aggressive recruitment and retention initiatives in order to create a workforce that is 11 percent bilingual. The CSC also works closely with the National Industries for the Blind and provides monthly mortgage statements in Braille for blind customers. National TDD phone service is also available from CSC, as well as e-mail customer responses for customers with hearing disabilities. Over 10 percent of the CSC employee population have a disability and are provided special equipment to enhance their productivity and ability to serve customers.

Rural Development's commitment to helping people become self-sufficient is also evident in their ongoing Welfare-to-Work initiative. CSC has worked with the St. Louis Transitional Hope House and the American Red Cross to employ former welfare recipients. Twenty-six employees referred through this effort started out as worker trainees. Eighteen have since been promoted into permanent loan processor positions. New worker trainees are provided with mentors, and may later become mentors themselves as they become proficient in the work environment. One employee who started in the Welfare-to-Work program is now enrolled in college and pursuing an accounting degree. Another has obtained rural housing financing and is now a proud single-parent homeowner.

The CSC has received several individual and Government agency awards for its initiatives. These include awards from the Council for Employment of Individuals with Disabilities, the Hispanic Employment Council, and the Black Employment Council.

eGovernment

Rural Development is actively supporting the President's eGovernment initiative. We are engaged in implementing a department-wide electronic government strategy, which calls for greater integration and collaboration across USDA and across government in developing and delivering services to citizens and businesses.

When I arrived last year at Rural Development, electronic loan processing for our SFH direct loan program was performed by a commercial, off-the-shelf software system. This software, called UniFi, improved rural housing loan processing nationwide, but was limited by requiring dedicated computers in each office.

In FY 2002, $1 million was allocated to 'web enable' the UniFi software. The primary objective of the project was to convert the personal computer-based UniFi system to a centralized, web based server application that allows for multiple-user access and uniformed system maintenance. All field offices have successfully converted to the centralized database.

In our SFH guaranteed loan program, the primary platform that allows guaranteed lenders to interact with us is the Lender Interactive Network Connection (LINC). LINC was launched in 2001 and we are continuing with enhancements to improve the transfer of information between lender-partners and Rural Development.

Rural Development has also implemented an Electronic Data Interchange and a web- based reporting system that greatly enhances the ability of our lender-partners to report the status of the guaranteed loans they service. Lenders can report more data, more frequently, more accurately, at less expense.

We are very excited about the Automated Loss Claims system that will be implemented this spring. This web-based system significantly reduces the paperwork burden on our lenders, allowing them to submit their loss claims electronically. The Automated Loss Claims system will significantly speed up the process, saving the government interest expense. In addition, the Automated Loss Claims system will enable lenders and Rural Development to gather more comprehensive data on loss claims -- data that will be used in our risk management efforts to continually reduce the cost of our programs.

Another technology-driven development is our Automated Underwriting system for guaranteed loans, scheduled for release this summer. This web-based system will automate the property and applicant eligibility determinations, streamline the underwriting process, allow for better and more fair underwriting decisions, improve the quality of our data, increase our risk management capabilities, and decrease processing time and costs for both lenders and Rural Development. Lower processing costs will lead to more affordable mortgages for rural home loan applicants.

We have developed two databases in MFH that provide accounting and management information. In FY 2002, a major upgrade converted the existing system to a web-based format. The upgrade provided additional eGovernment capabilities by enabling borrowers to submit information electronically.

Rural Development has played an important role in the USDA's county-based agency eForm initiative. The eForms website was developed in response to the requirements of the Freedom to E-File Act (P.L. 106-222) passed by Congress in June 2000. Through collaboration with the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development, customers, producers, partners, and others have electronic access to forms related to USDA programs. The website permits Rural Development customers to access and download forms to apply and participate in our programs.

Rural Development employees and management recognize the tremendous positive impact of homeownership on the economy, its impact on families' lives, and on the strength of rural communities. We recognize that Rural Development cannot address the homeownership and rural community facilities issues alone, and will continue to identify and work with partners who have joined with the President to improve the lives of rural residents. Rural Development will continue to reach out to and partner with lenders, the many faith-based groups and other non-profit organizations, as well as federal, state, local, and Indian Tribal governments to meet the housing and community needs of low income families and individuals in rural America.

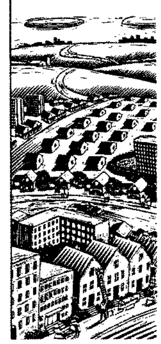
I hope I have illustrated for you the many ways that Rural Development's rural housing and community programs improve lives in rural areas. Mr. Chairman and members of the Committee, with your continued support, Rural Development looks forward to improving the quality of life in rural America by providing housing opportunities and building competitive, active rural communities.

NeighborWorks®
FOUNDER

Written Testimony of Ellen Lazar,
Executive Director

NEIGHBORHOOD REINVESTMENT CORPORATION

Submitted to the U.S. House of Representatives
Committee on Financial Services



March 5, 2003

Written Testimony of
Ellen Lazar, Executive Director
Neighborhood Reinvestment Corporation

Submitted to the
U.S. House of Representatives Committee on Financial Services

March 5, 2003

Good morning, Committee Chairman Oxley and Ranking Member Frank, Housing and Community Opportunity Subcommittee Chairman Ney and Ranking Member Waters, and members of the Committee. My name is Ellen Lazar and I am the executive director of the Neighborhood Reinvestment Corporation. I am here this morning to talk with you about the work that Neighborhood Reinvestment is doing to revitalize communities and help low- and moderate-income families achieve a personal stake in the renewal of their communities.

My testimony is based on the experience and considerable successes of 226 community development organizations serving more than 2,300 urban, suburban, and rural communities. These nonprofit partnerships are collectively known as the NeighborWorks® network and operate in 49 states, the District of Columbia, and Puerto Rico.

I am pleased to brief you this morning on Neighborhood Reinvestment and the NeighborWorks® network's outcomes and impact in fiscal year 2002, and our plans for fiscal year 2004. Before I do so, I would like to take this opportunity to talk about Neighborhood Reinvestment's history and how the NeighborWorks® System is able to achieve some significant outcomes.

History of the Neighborhood Reinvestment Corporation

The Neighborhood Reinvestment Corporation developed from a 1972 effort by the Federal Home Loan Bank Board to encourage thrift-industry lending in declining neighborhoods. In the course of their outreach and research, the Bank Board identified a local model for community-based lending and revitalization at work in Pittsburgh, Pennsylvania, named Neighborhood Housing Services. The cornerstone of Neighborhood Housing Services was a true partnership between local residents, who were determined to save their homes from planned demolition, the city government, which provided city funding and support, and local financial institutions, which provided needed expertise in lending, as well as capital. In 1974, the Federal Home Loan Bank Board joined with the

U.S. Department of Housing and Urban Development to establish the Urban Reinvestment Task Force, an interagency task force to encourage banks and savings and loan associations to participate in a series of local partnerships modeled after Neighborhood Housing Services. The Task Force was later expanded to include the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency.

By 1978, the Task Force's success in stimulating new investment of private-sector capital with a minimum of government involvement led Congress to establish the Neighborhood Reinvestment Corporation [Public Law 95-557, Section 606(a)(3)] as a public nonprofit corporation. The Corporation's statute and subsequent legislation established a statutory Board of Directors comprised of:

- A member of the Board of Governors of the Federal Reserve System;
- A member of the Board of Directors of the Federal Deposit Insurance Corporation;
- A member of the Board of the National Credit Union Administration;
- The U.S. Comptroller of the Currency, or Deputy Comptroller;
- The Director of the Office of Thrift Supervision; and
- The Secretary of Housing and Urban Development, or his/her designee.

Congress intended Neighborhood Reinvestment to serve as a highly flexible, non-bureaucratic laboratory for revitalizing communities. The Corporation would mobilize private, public and community resources at the local level so that "new ideas and approaches could be studied, refined and pilot tested." Congress charged Neighborhood Reinvestment with promoting public and private reinvestment in neighborhoods through partnerships between residents, financial institutions and local government. Since 1978, Neighborhood Reinvestment Corporation has been included in each presidential budget and receives an annual appropriation from Congress.

The collection of organizations modeled after the public-private partnership of the Neighborhood Housing Services is known as the NeighborWorks® network, which now numbers 226 organizations. The Urban Reinvestment Task Force was also instrumental in starting a secondary market for the NeighborWorks® network, Neighborhood Housing Services of America (NHSA). Along with Neighborhood Reinvestment Corporation, this coordinated effort is known as the NeighborWorks® System.

Overview of the NeighborWorks® System

The activities of the Neighborhood Reinvestment Corporation support three interrelated components of the NeighborWorks® System:

- The Neighborhood Reinvestment Corporation;
- The NeighborWorks® network; and
- Neighborhood Housing Services of America.

The NeighborWorks® System has developed a strong reputation as an increasingly effective and efficient vehicle for leveraging significant private-sector resources in support of local community revitalization and affordable housing efforts, while serving as a laboratory for ground-breaking housing strategies and policy.

The Neighborhood Reinvestment Corporation

Neighborhood Reinvestment's partnership with local housing and community development organizations supports residents, businesses and local governments in their efforts to revitalize their communities. Neighborhood Reinvestment has five core activities:

- We assist existing NeighborWorks® organizations to expand their geographic and programmatic scope and help other organizations to become chartered members of the NeighborWorks® network through extensive educational and partnership-building work that involves residents, business leaders and government representatives. Currently, we work with 226 NeighborWorks® organizations nationwide and we expect to invite 12 additional organizations to join the network in fiscal year 2003.

- We fund NeighborWorks® organizations by supporting their capital projects and operations to enable them to create and build their own community-revitalization initiatives from a solid asset base. In fiscal year 2002, this resulted in $1.7 billion of direct investment in America's communities, creating a powerful engine for revitalization.

- We provide sophisticated and specialized technical assistance to NeighborWorks® members to more effectively and efficiently reach underserved communities. In 2002, more than 35,000 lower income families and individuals were able to purchase, maintain or rehabilitate their home, over 72,000 families received pre- or post-purchase homebuyer education services, and more than 34,000 rental units for lower income households were owned or managed as a result of the work of the NeighborWorks® network.

- We conduct extensive review and oversight of NeighborWorks® organizations and NHSA, providing them with an objective appraisal of their strengths and weaknesses so as to allow them to focus on their ability to successfully manage their resources and programmatic risks. Using a rigorous and formalized organizational assessment process, in 2002 each community development organization in our network was evaluated and given a report card covering performance in such areas as financial management, board governance, contract compliance, productivity, and resource development.

- We operate national Training Institutes in major cities throughout the United States open to anyone involved in affordable housing and community revitalization, particularly private- and public-sector practitioners and community leaders. In 2002, more than 11,000 housing and community development practitioners from every state received substantive training in key aspects of community and economic development activity, including real estate development, portfolio management, leadership development and financial management.

These activities individually and collectively build the productivity and strength of the NeighborWorks® network and the broader local community development field.

The NeighborWorks® Network

Neighborhood Reinvestment is the founder of the NeighborWorks® network, a collaborative group of community-based nonprofits that has evolved from a few organizations to 226 members active in more than 2,300 communities across the country today. NeighborWorks® organizations operate in our nation's largest cities, suburban neighborhoods and rural areas across 49 states as well as Puerto Rico and the District of Columbia. Regardless of their target communities, NeighborWorks® organizations function as partnerships of local residents, lenders and other business leaders, and representatives from local government. To achieve the locally-identified goals, members of the NeighborWorks® network utilize the laboratory environment Congress intended to achieve creative strategies, collaborate on best practices, and develop flexible financing mechanisms.

Each organization is responsible for setting its own strategies, raising funds, and delivering services. Most NeighborWorks® organizations provide homebuyer counseling, rehabilitation monitoring, and targeted lending services that complement conventional lending activity. Most NeighborWorks® organizations also operate a revolving loan fund to meet community credit needs such as gap financing for home purchase loans, second mortgages for rehabilitation, small-business loans, and acquisition and development of residential and commercial real estate. The NeighborWorks® network is the only national community development nonprofit network with extensive expertise in designing, originating, and servicing small non-conventional loans to lower-income families. Clients often require individual counseling and personalized assistance; however, this concentrated effort pays off by creating new opportunities for first-time homebuyers and by permitting existing homeowners to make affordable improvements, all of which works to revitalize communities.

Neighborhood Housing Services of America

NHSA works in partnership with the Neighborhood Reinvestment Corporation to meet special secondary market needs of NeighborWorks® organizations and their clients. The primary mission of NHSA is to operate a specialized secondary market created to replenish the revolving loan funds and capital pools of local NeighborWorks® organizations.

With administrative and capital support provided by Neighborhood Reinvestment, NHSA purchases community development loans at face value, thereby allowing NeighborWorks® organizations to originate loans with interest rates and terms based on the borrowers' ability to repay. NHSA's loan purchases provide a stream of capital into NeighborWorks® organizations' revolving loan funds so as to meet additional needs within their target neighborhoods.

NHSA furthers Neighborhood Reinvestment's financial support by securing private-sector capital from a pool of socially responsive national institutional investors, including insurance companies, financial institutions, foundations and pension funds. Proceeds from these investments are used to purchase NeighborWorks® loans.

The NeighborWorks® System Works Intelligently and Efficiently

The approach that Neighborhood Reinvestment employs in interacting with and providing services to the NeighborWorks® network is crucial to the successes the System has achieved. Congress designed Neighborhood Reinvestment to be non-bureaucratic, creative and nimble, in order to quickly respond to varied local needs. As a result, our services are responsive to the environments in this nation's varied communities, our management of network organizations is strategic and locally-driven but nationally-monitored, while our service delivery is efficient, effective, and constantly evolving.

Services Neighborhood Reinvestment Provides
Neighborhood Reinvestment maintains a waiting list of organizations that apply to become members of the NeighborWorks® network. While flexible grants are an attractive aspect of membership, prospective members regularly cite specialized training, technical assistance, a members-only secondary market, customized tools and strong professional affinity groups (such as, the Campaign for Homeownership, the NeighborWorks® Multifamily Initiative, the NeighborWorks® Rural Initiative) as equally important. Because funding is inextricably tied to training and technical assistance opportunities, the resulting impact is both more powerful and more sustainable.

Financial Support
Equity capital grants are a critically important financing vehicle that Neighborhood Reinvestment provides to NeighborWorks® organizations for capital and revolving loan funds that support real estate development and lending. NeighborWorks® organizations use these grants to provide the equity and gap financing necessary to make loans for home purchases, property rehabilitation and small businesses, and provide equity and financing for real estate development. Eligible activities also include capital costs associated with the acquisition and development of residential and commercial real estate for long-term ownership by a NeighborWorks® organization.

Neighborhood Reinvestment also provides expendable grants to NeighborWorks® organizations to strengthen and increase their organizational ability to develop and administer responsive products and services. These grants are awarded for activities that address the full range of organizational, administrative and financial management and development issues faced by nonprofit housing and community development organizations. Particular emphasis is placed on activities crucial to increasing production and efficiency, thereby generating sustained community impact and ensuring the long-term success of the organization.

Technical Assistance
In tandem with financial assistance, Neighborhood Reinvestment provides a wide range of technical assistance. NeighborWorks® organizations request practical, systems-based assistance in programmatic, organizational, administrative, financial or management areas of strategic importance to their organization. Neighborhood Reinvestment responds with a team of professionals familiar with each organization's local market, environmental challenges, structure and mission, and provides technical assistance in six key programmatic areas: organizational development; resource development and marketing; community revitalization, economic development and business planning; technology and financial management systems; single-family housing and lending; and real-estate development and management. The guiding principles observed by Neighborhood Reinvestment include a mandate to design and deliver our services in a manner that consistently builds the capability of network organizations to fulfill their vitally important missions and increases their capacity to sustain their efforts over time. Our goal is to increase self-reliance and programmatic expansion among network members.

Training Opportunities and Information
A comprehensive, systematic program of training and informing powerfully augments on-site technical assistance. The Neighborhood Reinvestment Corporation is nationally recognized as the premier provider of training in the housing and community development field, having founded its Training Institute 15 years ago. Today, the Neighborhood Reinvestment Training Institute offers more than 150 courses and reaches more than 5,000 people a year from more than 4,000 communities across America. Participants at the Training Institutes come from all 50 states, Puerto Rico and the District of Columbia.

Neighborhood Reinvestment's Training Institutes are typically scheduled five times each year at various locations around the country. Courses are offered in eight tracks: homeownership and community lending, affordable housing, community building, community economic development, construction and production management, management and leadership, and neighborhood revitalization and rural development. The Institutes also host symposia on cutting-edge topics involving nationally recognized experts, special-issue workshops, and peer-to-peer networking opportunities. Approximately half of the attendees of the Institutes come from organizations within the NeighborWorks® network; the rest come from other communities and organizations around the country. This is one of the many ways that the support Congress provides Neighborhood Reinvestment Corporation reaches not only the 2,300 NeighborWorks®-assisted communities, but also the broader community development field.

Additionally, Neighborhood Reinvestment provides training on a smaller regional level that is more responsive to geographical needs and conditions. Neighborhood Reinvestment also provides specialized training and professional development for highly-experienced community development professionals, which is unique in the industry.

Managing the NeighborWorks® Network

As Neighborhood Reinvestment Corporation continues to sustain and expand a network of excellence, we continue to allow our NeighborWorks organizations local flexibility in their programmatic activities. However, as a congressionally-funded nonprofit corporation, we take seriously our obligation to maximize the efficiency and effectiveness of the funds we receive, while preventing waste.

Organizational Assessment

As part of its responsibility to act as a good steward of federal funding, and to protect the investment of other partners as well as the high standards and the reputation of the NeighborWorks® network as a whole, Neighborhood Reinvestment Corporation is committed to promoting and maintaining a network of high-performing, well-managed, nonprofit housing and community development corporations that deliver high quality services responsive to local needs and have a measurable impact on their communities. One of the tools employed in doing this is a uniform program review and assessment system.

Organizational assessment enhances the performance and productivity of NeighborWorks® organizations, while assisting in building the capacity of our affiliates to function in a highly effective manner. Assessments also offer the opportunity to evaluate the use of federal funds from Neighborhood Reinvestment, and evaluate the capacity of affiliate organizations' to meet NeighborWorks® network membership standards and performance objectives.

Through a system of continuous monitoring, each NeighborWorks® organization is subject to an annual risk assessment through either off-site or on-site program reviews. Off-site reviews involve the collection and analysis of data about the organization. These data are analyzed in eight risk areas on a quarterly basis. If a risk alert is identified, the degree to which the organization has the capacity to manage the risk is determined.

On-site reviews are conducted periodically for all network members as well as under special circumstances. For example, all new applicants for membership are evaluated on-site before being offered a charter as a NeighborWorks® member and an on-site review might also be called for when an off-site review raised serious questions about programmatic risk.

Expansions, Organizational Mergers and New Affiliates

In today's community development industry, effective and efficient growth strategies frequently do not mean creating or adding new organizations. In many underserved areas, the most sensible and cost-effective approach is to expand the reach or programmatic services of an existing network member, or to facilitate a merger of two organizations to create a more powerful organization with greater impact and efficiency. Neither of these approaches results in the addition of new organizations, yet both can result in productive outcomes, more efficient use of resources, responsive service delivery, and expanded coverage.

Mergers of local housing and community development organizations are becoming an increasingly common practice. The combined efforts resulting from mergers can result in achieving greater impact at equal or less cost.

Neighborhood Reinvestment receives a far greater number of requests for new affiliations than it can hope to satisfy responsibly. To prioritize requests from new applicants, the Corporation seeks those environments where its resources and assistance are likely to add the greatest value to local efforts and produce the most pronounced impact. Through a careful affiliation process, Neighborhood Reinvestment works with interested existing community-based organizations to ensure that before any organization is chartered as a NeighborWorks® entity, it is: sound and productive; led by a board of directors reflective of the community it serves; and, committed to a mission with goals, values, programs and accomplishments compatible with the focus and priorities of the NeighborWorks® network. In a given year, Neighborhood Reinvestment extends an invitation to join the NeighborWorks® network to up to 10 organizations.

Through the affiliation process, Neighborhood Reinvestment enables an organization to increase its productivity and realize a greater return on the investment of time and money. Chartering a new NeighborWorks® organization requires extensive educational and partnership-building efforts, usually over a period of about 12 to 18 months.

Data Collection
Neighborhood Reinvestment's data collection system, which is recognized by many to be the most systematic and effective within the field, includes an annual and two quarterly surveys. The annual survey collects data on NeighborWorks® organization characteristics, such as service area; staff positions, salary, tenure; board composition; sources of income; loan portfolio; sources of contributions and grants; types of community services. The general quarterly production survey gathers information regarding completed projects by sources of investments, types of programmatic services and housing units. We also collect quarterly data from organizations in the NeighborWorks® Campaign for Homeownership, which details each assisted homebuyer's demographics, sources of finance, monthly cost and services received from the participating NeighborWorks® organizations.

To assist the network organizations with their database management and reporting capability, the Neighborhood Reinvestment has developed a customer tacking and project management software application. In fiscal year 2004, we plan to develop a web-based data collection system, which will enable us to have direct access to an organization's database. Such a database management platform will increase our data collection and reporting efficiency significantly.

How Services Are Delivered
Neighborhood Reinvestment Corporation provides its services to NeighborWorks® organizations through nine district offices that work closely together with issue-specific initiatives – the Campaign for Home Ownership, the NeighborWorks® Rural Initiative, and the NeighborWorks® Multifamily Initiative.

District Offices
Neighborhood Reinvestment delivers the bulk of its services through nine district offices across the country. Our district offices offer specialized technical assistance, evaluate financial assistance proposals, administer grants, and evaluate organizations wishing to become members of the NeighborWorks® network. Neighborhood Reinvestment staff at the district level focus their service delivery on enhancing the performance and capabilities of network members and on ensuring the delivery of goals set by national initiatives such as the Campaign for Home Ownership, the NeighborWorks® Multifamily Initiative and the NeighborWorks® Rural Initiative. Staff at the district level are the primary delivers of our services to the NeighborWorks® network.

NeighborWorks® Campaign for Home Ownership
The NeighborWorks® Campaign for Home Ownership is the largest initiative of its kind to bring families of modest means into the economic mainstream by helping them achieve one of their primary life goals: owning a home. Neighborhood Reinvestment has coordinated this joint effort of banks, insurance companies, secondary markets, government, the real estate community and others, involving more than 140 local community-based NeighborWorks® organizations since the initial launch of the NeighborWorks® Campaign for Home Ownership in 1993.

Over the past 10 years, Neighborhood Reinvestment and the NeighborWorks® network have met challenging goals and accomplished significant outcomes through the NeighborWorks® Campaign for Home Ownership, including:

- Assisted more than 60,000 families to become homeowners, of which 54 percent are minority and 67 percent have incomes below 80 percent of area median income;
- Provided more than 350,000 individuals with pre-purchase homebuyer education and counseling services; and
- Invested more than $5 billion in America's distressed neighborhoods and communities.

To further support these outcomes, Congress provided an additional $25 million to bolster local revolving loan funds, and fuel further research, training and innovations in fiscal years 1999 and 2000. The additional funding resulted in the following outcomes:

- Nearly 67,000 households received pre-purchase homebuyer education and counseling and nearly 18,000 families received post-purchase counseling services;
- Over 17,000 families were assisted in purchasing homes; and
- $1.5 billion was invested in those communities served.

The Campaign for Home Ownership, a partnership among Neighborhood Reinvestment and NeighborWorks® members, has achieved these outcomes by establishing standards for production and service delivery, coordinated and practitioner-focused training, and facilitated technical assistance and peer-mentoring. The NeighborWorks® Campaign for Home Ownership has focused on supporting NeighborWorks® organizations to help establish clear, aggressive goals, and define and abide by high quality standards. Innovative tools and ideas, such as Full Cycle Lending℠, NeighborWorks HomeOwnership Centers℠, Financial Fitness, and Section 8 Homeownership, have also been developed and supported.

The NeighborWorks® network's unique approach to homebuyer counseling has been service-marked under the term Full-Cycle Lending℠. Created by NeighborWorks® organizations, Full-Cycle Lending℠ enables lenders, government agencies and nonprofit NeighborWorks® organizations to work together to provide homeownership opportunities to families who might not qualify for – or do not know how to obtain – conventional mortgages. This system empowers and enables customers by teaching them about the responsibilities of homeownership, and reduces the risk of delinquency and foreclosure. Loans tailored to these customers are more attractive to lenders, many of which are eager to make inroads into this market.

More recently, Neighborhood Reinvestment and members of the NeighborWorks® network have begun to work with families even earlier in the process, through a financial education program called Financial Fitness. To further this effort, Neighborhood Reinvestment and the Federal Deposit Insurance Corporation (FDIC) have a partnership that involves Neighborhood Reinvestment's use of the FDIC's "Money Smart" financial literacy program to train adult educators and teach money management skills to thousands of potential homebuyers. The Corporation has developed standards, adapted and created training materials, trained trainers through the Neighborhood Reinvestment Training Institute, and initiated a pilot Financial Fitness program at 39 NeighborWorks® sites nationwide.

By the end of calendar year 2002, NeighborWorks® organizations enrolled over 8,700 people in the training, and graduated more than 5,500 individuals. Of these, nearly 59 percent are minorities, 93 percent are renters, 65 percent are women, and 75 percent have incomes below 80 percent of the area median income. This program intends to give participants an understanding of basic finances and healthy financial relationships that benefit both the individual and the community.

In passing the10-year mark, the Campaign for Home Ownership has set new goals for the next five years.

- *Homeownership Production.* Create 50,000 new homeowners, including 30,000 minority homebuyers.

- *Homeownership Preservation.* Assist 50,000 families to preserve homeownership and improve their homes through housing rehabilitation, maintenance, repairs, delinquency and foreclosure prevention, loss mitigation, and refinancing.

- *Consumer Outreach.* Establish a coordinated outreach, public information and counseling effort to reach 500,000 families through educational programs, such as Financial Fitness classes, anti-predatory lending efforts, pre- and post-purchase counseling, and expansion of NeighborWorks HomeOwnership Centers℠.

- *Targeted Revitalization Areas.* Work with up to 10 pilot NeighborWorks® organizations to establish geographically-targeted revitalization efforts, which will include homeownership promotion as well as single- and multi-family real estate development, resident leadership, and commercial and economic development.

- *Building Sustainable Capacity in the Industry.* Promote the growth of the homebuyer education industry through the development of up to 10 national alliances, establishing national standards for training and certifying homebuyer educators and counselors, and providing tools and best practices that can help the industry become more effective, efficient and sustainable.

NeighborWorks® Rural Initiative
In 1990, three NeighborWorks® affiliates identified their primary service areas as rural communities. By the end of 2002, that number had grown to 60 organizations, which is 27 percent of the total number of organizations in the NeighborWorks® network and comprises the fastest growing segment of the network. Moreover, as our existing NeighborWorks® organizations expand their target areas, they begin to capture rural areas with their services.

The network has proven its ability to address housing needs in rural communities, particularly through our partnership with a peer organization that was developed by rural network organizations – Rural NeighborWorks® Alliance. With seed funding from Neighborhood Reinvestment and the Northwest Area Foundation, rural NeighborWorks® organizations have developed a shared revolving loan fund that provides bridge financing for local housing or economic development projects at below-market rates. With initial loan assets of over $2.1 million, Rural NeighborWorks® Alliance has made 40 loans totaling more than $4.5 million to 14 rural NeighborWorks® organizations. These loans have supported the production of 413 units of housing and 26 economic development projects, and leveraged $33 million in total project financing.

Although methods of delivering services in rural areas tend to differ from urban and suburban areas, NeighborWorks® organizations have identified one specific technical-service need more often than non-rural organizations: assistance with asset and property management. This appears to be a consequence of the scattered-site nature of properties that rural organizations manage and projects that are often scaled down to meet rural market conditions. In fiscal year 2004, the Corporation plans to ensure that rural NeighborWorks® organizations have full access to the property and asset management training that has been developed by the NeighborWorks® Multifamily Initiative.

Guided by a national steering committee of rural NeighborWorks® practitioners and Neighborhood Reinvestment staff, the Rural Initiative will also expand upon a national partnership with the U.S. Department of Agriculture's Rural Housing Service. In fiscal year 2004, Neighborhood Reinvestment will continue this partnership to more efficiently utilize and leverage the Rural Housing Service's programs, including Section 502 and Section 504 loan programs.

Neighborhood Reinvestment will continue to support the needs of the existing NeighborWorks® organizations serving rural populations, promote the expansion of their service areas, and invite additional rural and Native American organizations to join the NeighborWorks® network. Through target area expansion and partnership with tribal leadership, NeighborWorks® organizations have been able to leverage their expertise in homeownership to assist Native American families to become homeowners.

Through the Neighborhood Reinvestment Training Institute, the Corporation will introduce new rural courses at regional and national Training Institutes. The new courses represent the first phase in the development of a comprehensive rural program of study.

NeighborWorks® Multifamily Initiative

Understanding the importance of multifamily rental housing in a comprehensive neighborhood revitalization strategy, a group of NeighborWorks® organizations formed the NeighborWorks® Multifamily Initiative in 1999. Together, these organizations own more than 34,000 units of affordable and well-maintained rental housing. The members of the NeighborWorks® Multifamily Initiative make it their mission to provide sustainable multifamily homes, which are characterized over the long-term by:

- Affordability, as defined by local market conditions;
- Ongoing economic viability;
- High quality maintenance and management; and
- Access to on-site learning centers designed to advance the personal assets of residents – academic success of youth, employability of adults, financial savings, and homeownership.

With $5 million provided by Congress in fiscal year 2002, the Corporation embarked on an ambitious effort to create mixed-income multifamily properties serving families and individuals below 30 percent of area median income. With that funding, Neighborhood

Reinvestment provided 14 grants, which funded the development of those units affordable to families with extremely low-incomes. The congressional funding produced 121 units affordable to extremely low-income families. These units accounted for nine percent of the total units in the properties in which they were located, while 79 percent of the units were affordable to families with incomes between 30 and 60 percent of area median income. The $5 million congressional set-aside helped invest over $141 million in targeted communities. Further, these units were developed in a myriad of settings – urban, suburban, rural, large and small developments as well as scattered site. Most importantly, many of these units will be affordable to extremely low-income families without need for a Section 8 voucher or certificate or other form of on-going subsidy.

Outcomes of Fiscal Year 2002

With congressional backing, fiscal year 2002 proved to be a groundbreaking year on many fronts. Congress provided Neighborhood Reinvestment with an appropriation of $105 million; of which, $10 million was set-aside to encourage partnerships and training in furtherance of the U.S. Department of Housing and Urban Development's Section 8 homeownership option, and $5 million was set-aside to promote the development of mixed-income rental properties that included families with incomes below 30 percent of area median income.

In fiscal year 2002, the NeighborWorks® network achieved new levels of production, including:

- Generated nearly $1.7 billion in direct investment to targeted communities;
- Made available affordable housing opportunities for nearly 70,000 families;
- Provided pre- and post-purchase homebuyer education and counseling services to over 68,000 families; and
- Leveraged $15.80 in other investments for each dollar Congress appropriated to Neighborhood Reinvestment.

Furthermore, the two set-asides allowed Neighborhood Reinvestment and the NeighborWorks® network to continue its role as laboratory for the community development field.

- Neighborhood Reinvestment continued to partner with 53 NeighborWorks® organizations and 70 Public Housing Authorities in implementing the U.S. Department of Housing and Urban Development's Section 8 homeownership option. Over the past four years, the NeighborWorks® System has provided homebuyer education to 2,000 families, produced over 200 new homeowners, and educated 1,200 professionals on this new programmatic opportunity.

- The NeighborWorks® network developed 121 rental units affordable to families with incomes below 30 percent of the area median income. These units were in 14 developments totaling over 1,300 units. Remarkably, many of these extremely low-income units will be affordable to families with incomes less than 30 percent of area median income without the need for a Section 8 voucher or certificate. Were it not for this special set-aside, these units would not have been developed.

Lastly, we continued to provide high quality services to NeighborWorks® organizations, aiding their continuing work of providing needed services in their communities. In fiscal year 2002, Neighborhood Reinvestment and NHSA:

- Conducted on- and off-site organizational assessments of each member of the NeighborWorks® network;
- Provided over 11,000 individuals with training, amounting to over 188,000 contact hours;
- Purchased over $60 million in loans from NeighborWorks® organizations; and
- Distributed 69 percent of Neighborhood Reinvestment's congressional appropriation in the form of grants.

Fiscal Year 2003

For fiscal year 2003, the President recommended $105 million for Neighborhood Reinvestment Corporation, which included a $10 million set-aside to continue our work with the U.S. Department of Housing and Urban Development in furthering Section 8 homeownership option. Congress appropriated $105 million for Neighborhood Reinvestment, of which, $5 million was set-aside to continue our Section 8 homeownership work, and $5 million was set-aside to promote the development of mixed-income rental properties that included families with incomes below 30 percent of area median income. I look forward to briefing you on our outcomes for fiscal year 2003.

Fiscal Year 2004 Budget and Outcomes

For fiscal year 2004, we are requesting an appropriation of $115 million. At this funding level, Neighborhood Reinvestment will be able to expand its services in support of the White House's initiative on increasing minority homeownership and other homeownership activities, as well as continue to recruit and retain staff that will increase its service to the NeighborWorks® network.

A $115 million appropriation will assist the NeighborWorks® network to:

- Leverage nearly $2.2 billion in direct total investment in distressed rural, suburban and urban communities;
- Use each dollar Congress appropriates to leverage $18 from other sources;
- Assist nearly 79,000 families obtain and maintain safe and affordable rental and homeownership housing; and

- Provide pre- and post-purchase homeownership counseling and financial literacy training to nearly 84,000 families.

To support and expand these significant accomplishments, the Neighborhood Reinvestment Corporation and NHSA will:

- Conduct 240 organizational assessments of member organizations;
- Provide 220,000 training contact hours to community development leaders and practitioners, not only through the Neighborhood Reinvestment Training Institute but also through local and regional training venues;
- Disburse 69 percent of Neighborhood Reinvestment's congressional funding in the form of grants; and
- Purchase $65 million in loans from NeighborWorks® organizations.

In June 2002, President Bush announced a national goal of increasing the number of minority homeowners by at least 5.5 million by the end of this decade. Neighborhood Reinvestment and NHSA have been active partners in the development and unveiling of the White House's initiative on increasing minority homeownership.

For years, the NeighborWorks® System has been a leader in bringing homeownership opportunities to all Americans. Among the families assisted by the NeighborWorks® Campaign for Home Ownership from 1998 through 2002, 54 percent are racial and/or ethnic minorities – compared to 19 percent minorities served by the conventional market (based on 2000 HMDA data).

Rather than making changes in its basic strategies, the Corporation will expand the tools and efforts that have proven to be the most effective in addressing critical areas affecting homeownership opportunities, particularly for minorities and other underserved populations such as Spanish-speaking families who are not bilingual.

Funding in fiscal year 2004 will help achieve the aggressive goals we have set. In support of the President's goal, within 10 years, the NeighborWorks® System will:

- Make available housing counseling assistance to more than 650,000 families, of which 59 percent (380,000), will be minority households;

- Provide direct homeownership assistance to more than 130,000 families, of which more than 59 percent (79,000), are estimated to be minority families;

- Provide training, outreach, translation and other supports with an eye to increasing the minority homeownership rate; and

- Triple the number of minority clients served by NHSA's products.

Lastly, the added funding in fiscal year 2004 will help Neighborhood Reinvestment address rising personnel and benefits costs. While Neighborhood Reinvestment staff has actually decreased since 1999, benefits costs for our staff have risen. The increase in personnel and operating costs is attributed to higher gross salaries and costs of health care and other benefits. The increase in salaries includes a five percent merit pool and small bonuses; the Corporation does not provide a cost-of-living increase.

Conclusion

Let me close by thanking the Committee for the opportunity to brief you on our work, and the outcomes that were generated as a result of Neighborhood Reinvestment's congressional appropriation. The NeighborWorks® System and Neighborhood Reinvestment's congressional appropriation is a valuable asset to 226 community development organizations and more than 2,300 communities across America. With our leveraging of dollars, we have been efficient and effective in creating the maximum impact of our federal appropriation. Congress has allowed Neighborhood Reinvestment to be flexible and responsive to local needs; as a result, families and communities have benefited.

Neighborhood Reinvestment Corporation is committed to building healthy, strong and safe communities all across America. Your continued support is vital to us in accomplishing this goal.

Testimony of
Anthony S. Lowe
Federal Insurance Administrator
Director, Mitigation Division
Emergency Preparedness and Response Directorate
Department of Homeland Security
before
The House of Representatives
Committee on Financial Services
March 5, 2003

Chairman Oxley, Ranking Member Frank, and Members of the Committee, on behalf of the National Flood Insurance Program, administered by the Emergency Preparedness and Response Directorate of the Department of Homeland Security, I welcome and appreciate the opportunity to appear today before the Committee on Financial Services. I will focus my testimony today on the issues of risk reduction that directly relate to the National Flood Insurance Program and the Map Modernization Program.

Before doing so, I want to particularly thank you, Mr. Chairman, Ranking Member Frank, and others on this Committee, for your leadership in resolving the recent authorization issue for the National Flood Insurance Program. Through your efforts, we were able to maintain operations and service to the 4.4 million policyholders, and the lending and real estate industries, that rely on the National Flood Insurance Program for protection from flood losses.

Mr. Chairman, I am happy to report that the National Flood Insurance Program, the largest single-line insurance operation in the country, is once again debt-free.

In June of 2001, Tropical Storm Allison battered the Gulf Coast and East Coast States. After the final losses were tallied, Allison had the dubious distinction of becoming our first billion-dollar storm, and we had to borrow $660 million from the Treasury to pay for losses that exceeded our reserves. We have repaid that debt, with interest, as of October 2002. On the human scale, 30,000 of Allison's victims received claim payments from the National Flood Insurance Program rather than relying on disaster relief, proving again the value of the flood insurance program, which helps America recover from the devastating effects of flood.

The National Flood Insurance Program stands once again on solid financial ground as we begin a new era in emergency management.

As the Committee is aware, March 1st marked the start of that new era as 22 Federal agencies were consolidated into the Department of Homeland Security to serve the most fundamental mission of government: to protect our citizens from harm—from terrorist attacks to natural disasters.

Applying our collective expertise and resources to all the hazards that face our nation is an expectation of the President, Secretary Ridge, and the American people.

We, who administer the National Flood Insurance Program and the other natural hazard mitigation programs established by Congress, welcome this challenge. The creation of the Department of Homeland Security (DHS) offers us the opportunity to share our successes and the lessons learned from the National Flood Insurance Program and our other natural hazard mitigation programs and leverage them to address other perils.

This consolidation of agencies into DHS, therefore, focuses greater resources on protecting people and property from all hazards—natural and man-made.

As you know, the Homeland Security Act of 2002 was budget-neutral for the necessary start-up expenses for the new Department. With the authorization and approval of Congress, each agency moving into DHS made a one-time contribution from its unobligated balances from fiscal year 2002. This was done to avoid any burden on the American taxpayer.

The National Flood Insurance Program (NFIP) was no exception. We, along with other programs, contributed funding to cover the start-up costs from unobligated, remaining balances at the end of fiscal year 2002 from our Flood Mitigation Assistance (FMA) Program.

Many of our stakeholders and partners, including the Association of State Floodplain Managers, have voiced concern about this transfer of funds and whether it signals a shift in national priorities, or, at worst, a reduction of our commitment to serve those at risk in the nation's floodplains.

As we move forward within the new department, we are taking steps to enhance our mission to protect people and property from floods and other natural hazards. I want to assure this committee, the NFIP's partners and stakeholders, and those property owners at risk from flooding that our commitment to save lives and property under the NFIP is unwavering.

First, the President's 2004 budget request for the Department of Homeland Security accounts for the administrative needs of the Department so this is a one-time contribution.

Second, all eligible and pending mitigation projects that the States submitted at the time of transition **will be funded** with the balance of fiscal year 2002-2003 funds and with fiscal year 2003-2004 funds.

Third, we now have the new FY2003 appropriation, in which Congress provided $149 million for the Pre-disaster Mitigation grant program, and reduced the set-aside for the Hazard Mitigation Grant Program (HMGP) from 15 percent to 7.5 percent of the projected Federal assistance for a major disaster declaration. The increase in pre-disaster mitigation funding offsets the reduction in the HMGP. The remaining FMA funds coupled with the increased funding for pre-disaster mitigation and the continued HMGP funding will provide multiple opportunities to fund mitigation projects. The $149 million this fiscal year for pre-disaster mitigation will enable us to address our highest mitigation priorities, including repetitive flood loss properties.

To implement this competitive program, we are developing a national evaluation system using, in part, weighted factors to evaluate proposed projects. The factor that will have the most weight in the evaluation is the benefit-to-cost ratio for a project. We believe that many repetitive loss properties can be mitigated through this program.

On average, repetitive flood loss properties account for $200 million in losses to the NFIP each year. Ten thousand of the properties we currently insure under the NFIP have had four or more insured losses, or two or three losses that cumulatively exceed the value of the building. We have paid out on these properties, over the past twenty-three years, close to one billion dollars in flood insurance claims. These 10,000 repetitive flood loss properties are the highest priority targets for mitigation in our repetitive loss strategy. This is reflected in our national evaluation criteria for pre-disaster mitigation grant projects.

Mitigating and insuring the highest risks also requires accurate risk assessment. That is why our Flood Map Modernization initiative is critical to our efforts to reduce the exposure of people and property to flood hazards. Modernizing our flood maps requires time and money. The funding appropriated in fiscal year 2003 will be added to the approximately $50 million in funding from NFIP policyholder fees that contribute annually to the mapping program. This combination of funds enables us to initiate an approximately $1 billion multi-year effort. The Administration's 2004 budget reflects that the job of map modernization will be a multi-year commitment of resources and proposes for fiscal year 2004 a $200 million appropriation to modernize and digitize flood maps. As indicated in the Administration's 2004 budget request, additional appropriations must continue if we are to complete this important initiative.

We approach this multi-year effort with the certainty that to be successful we must leverage all of our partnerships—State, local, and regional entities as well as other Federal agencies and the private sector.

We have been working with our partners to prepare a comprehensive strategy for implementing the flood map modernization initiative. We have held interactive sessions with other Federal agencies, representatives of State and local governments, and interested organizations.

These sessions with our stakeholders have been invaluable in helping define the most effective way of distributing the $149 million in flood map modernization funding for FY 2003 and of prioritizing Map Modernization projects nationwide.

We are implementing a performance-based management system to accomplish this for fiscal year 2003 on time and within budget. There is a good reason for this: Results-based projects encourage stakeholders to be innovative and find cost-effective ways of delivering services. By shifting the focus from process to results, we will achieve better outcomes.

We are also aware that there are many States, communities, and other government entities such as flood control districts, and regional planning commissions that are capable of producing high-quality, cost-effective flood hazard data. This number continues to grow and many States and communities realize the value of investing in programs that save lives and reduce property losses from flooding. Our Cooperating Technical Partners (CTP) program has leveraged contributions from these capable entities, increasing the value of the dollars we have spent in these jurisdictions by 220 percent nationwide. We plan to build further capability and increase the number of partnerships.

Where there is such knowledge and capability, we intend to develop cost-effective partnerships that promote community "ownership" of these flood data as they are revised.

In addition, our Regional Offices, in anticipation of the launching of the flood map modernization initiative, have executed contractual agreements with qualified engineering firms to perform flood studies. Our Regional Offices are also seeking to identify other technical resources capable of producing flood studies, such as other Federal agencies. In determining what method will be pursued to generate updated flood hazard data, we will carefully evaluate the alternatives to ensure that the most beneficial approach is utilized.

A key component of the flood map modernization initiative is improving E-Government processes for flood hazard data creation and distribution. We will leverage a government-wide solution, the Geospatial One Stop, to enable easy access and exchange of flood hazard data through the Internet. Through the Geospatial One Stop, we will also provide tools that enable users to effectively use the information to make decisions to reduce vulnerability to flood risk. The geospatial nature of the data and the Internet delivery system will help facilitate not only the use of flood hazard data but also the sharing of it for the management of all hazards.

With the resources we have for this fiscal year for both mitigation projects and flood map modernization efforts, we can address our highest priorities.

The strategic thinking and planning we have undertaken for our fiscal year 2003 funds is setting the stage for future economies, bigger payoffs, and even greater accomplishments with the funding levels proposed in the President's 2004 budget.

Our efforts this fiscal year will reduce the number of people, property, and infrastructure exposed to flood hazards and other natural perils.

What we are doing this fiscal year to manage our natural hazard mitigation and flood map modernization efforts will also provide a platform for the Department of Homeland Security to secure the nation from the full range of hazards, natural and man-made.

And the NFIP shall do this through honoring our pledge to the American people and our stakeholders to reduce the exposure of America's property owners at risk from floods.

On the Emergency Food and Shelter Program, this vital program provides grants to non-profit and faith-based organizations at the local level to supplement their programs for emergency food and shelter. The President's 2004 budget includes $153 million to meet immediate needs of the homeless and recommends that the program be transferred to the U.S. Department of Housing and Urban Development (HUD). The Department of Homeland Security supports this proposed transfer of responsibility and funding to HUD.

The proposed transfer would allow HUD to coordinate the Emergency Food and Shelter program with other Federal homelessness prevention and assistance programs. This transfer to HUD would also permit the Emergency Food and Shelter program to link housing and other services for the chronically homeless with other comprehensive services. The proposed transfer would also decrease the likelihood of duplication of services and allow scarce resources to be used most effectively.

In closing, I appreciate the opportunity to represent the Department of Homeland Security before the Committee on Financial Services. I am pleased to answer any questions you may have.

STATEMENT OF MEL MARTINEZ
SECRETARY
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE
UNITED STATES HOUSE
COMMITTEE ON FINANCIAL SERVICES

MARCH 5, 2003

OVERVIEW

Chairman Oxley, Ranking Member Frank, Distinguished Members of the Committee:

Thank you for the invitation to join you this morning. I am honored to outline the Fiscal Year (FY) 2004 Budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

HUD has achieved measurable success since 2001 in carrying out its mission and meeting the many challenges confronting a Cabinet-level Department. Today, HUD annually subsidizes housing costs for approximately 4.5 million low-income households through rental assistance, grants, and loans. It helps revitalize over 4,000 localities through community development programs. The Department provides housing and services to help homeless families and individuals become self-sufficient. HUD also encourages homeownership by providing mortgage insurance for more than 6 million homeowners, many of whom would not otherwise qualify for loans.

Supported by HUD's proposed $31.3 billion FY 2004 budget, this important work will continue. Housing remains a critical component of both the President's plan to promote economic growth and his focus on meeting the common challenges faced by Americans and their communities.

The President does not intend to change his 2004 Budget based on the program or agency levels included in the 2003 Omnibus bill the Congress adopted in mid-February. The President's 2004 Budget was developed within a framework that set a proposed total for discretionary spending in 2004, and each agency and program request reflected the Administration's relative priority for that operation within that total. While we recognize that Congress may believe there is a need to reorder and adjust some of these priorities, the Administration intends to work with Congress to stay within the 2004 overall amount

HUD's proposed budget offers new opportunities for families and individuals – and minorities in particular – seeking the American Dream of homeownership.

It offers new opportunities for renters by expanding access to affordable housing free from discrimination.

It provides new opportunities for strengthening communities and generating renewal, growth, and prosperity – with a special focus on ending chronic homelessness.

And our budget creates new opportunities to improve HUD's performance by addressing the internal management issues that have long plagued the Department.

INCREASING HOMEOWNERSHIP OPPORTUNITIES

Americans place a high value on homeownership because its benefits for families, communities, and the nation as a whole are so profound.

Homeownership creates community stakeholders who tend to be active in charities and churches. Homeownership inspires civic responsibility, and owners vote and get involved with local issues. Homeownership offers children a stable living environment that influences their personal development in many positive, measurable ways – at home and in school.

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make – a tangible asset that builds equity, credit health, borrowing power, and overall wealth.

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, more Americans were homeowners in 2002 than at any time in this nation's history. The national homeownership rate is 68 percent. That statistic, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities: while the homeownership rate for non-Hispanic whites is nearly 75 percent, it is less than 50 percent for African-Americans and Hispanics.

The Administration is focused on giving more Americans the opportunity to own their own homes, especially minority families who have been shut out in the past. In June 2002, President Bush announced an aggressive homeownership agenda to increase the number of minority homeowners by at least 5.5 million by the end of this decade. The Administration's homeownership agenda is dismantling the barriers to homeownership by providing down payment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs, and simplifying the homebuying process.

Through "America's Homeownership Challenge," the President called on the real estate and mortgage finance industries to take concrete steps to tear down the barriers to homeownership that minority families face. In response, HUD created the Blueprint for the American Dream Partnership, an unprecedented public/private initiative that harnesses the resources of the Federal Government with those of the housing industry to accomplish the President's goal.

Additionally, HUD is proposing several new or expanded initiatives in FY 2004 to continue the increase in overall homeownership while targeting assistance to improve minority homeowner rates.

As a first step, HUD proposes to fund the American Dream Downpayment Initiative at $200 million. First introduced in FY 2002, this program targets funding under the HOME program specifically to low-income families wanting to purchase a home. The FY 2003 appropriations provided for $75 million for this initiative, which will be sufficient to begin the program. The FY 2004 budget provides funding to assist approximately 40,000 low-income families with down payment and closing costs on their homes.

The HOME Investment Partnerships Program (HOME) plays a key role in addressing the shortage of affordable housing in America. As reflected in this year's program assessment, the HOME program is successful because it is well managed and its flexibility ensures local decision-making. In 2004, a total of $2.197 billion is being provided to participating jurisdictions (states, units of local government, and consortia) to expand affordable housing, which represents a 10-percent, or $200 million, increase for HOME from the 2003 enacted level. The funds dedicated to expanding and improving homeownership will be spent rehabilitating owner-occupied buildings and providing assistance to new homebuyers. Based on historical trends, 36 percent of the homeownership-related funds will be used for new construction, 47 percent for rehabilitation, and 14 percent for acquisition.

Recipients of HOME funds have substantial discretion to determine how the funds are spent. HOME funds can be used to expand access to homeownership by subsidizing down payment and closing costs, as well as the costs of acquisition, rehabilitation, and new construction. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 288,000 low-income households.

To promote the production of affordable single-family homes in areas where such housing is scarce, the Administration is proposing a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home. This new tax credit targets low-income individuals and families; eligible homebuyers would have incomes of not more than 80 percent of their area median.

HUD is committed to helping families understand the homebuying process and how to avoid the abuses of predatory lending. Housing counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The FY 2004 budget will expand funds for counseling services from $40 million in FY 2003 to $45 million. This will provide 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling.

The FY 2004 budget strengthens HUD's commitment to the Self-Help Homeownership Opportunity Program (SHOP). SHOP provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The FY 2004 budget request for $65 million triples the funding received in 2002, reflecting President Bush's commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide for very low-income families. Funds are provided as a set-aside within the Community Development Block Grant account.

The Federal Housing Administration (FHA) is the Federal Government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. In 2002, FHA insured $150 billion in mortgages for almost 1.3 million households, most of them first-time homebuyers, which represents a 21 percent increase over the previous year. Thirty-six percent were minority households.

FHA offers a wide variety of insurance products, the largest being single-family mortgage insurance products. FHA insures single-family homes, home rehabilitation loans, condominium loans, energy efficiency loans, and reverse mortgages for elderly individuals. Special discounts are available to teachers and police officers who purchase homes that have been defaulted to HUD and who promise to live in their homes in revitalized areas.

HUD is proposing legislation for a new mortgage product to offer FHA insurance to families that, due to poor credit, would either be served by the private market at a higher cost or not at all. It is anticipated that borrowers will be offered FHA loan insurance under this new initiative that will allow them to maintain their home or to purchase a new home. The new Mutual Mortgage Insurance Fund (MMI) mortgage loan program is expected to generate an additional $7.5 billion in endorsements for 62,000 additional homes.

Through its mortgage-backed securities program, Ginnie Mae helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as VA and the Rural Housing Service of the U.S. Department of Agriculture.

During Fiscal Year 2002, Ginnie Mae surpassed a total of $2 trillion in mortgage-backed securities issued since 1970. Reaching this milestone means that more than 28.4 million families have had access to affordable housing or lower mortgage costs since Ginnie Mae's inception. HUD is proud of Ginnie Mae's accomplishments and its important role in helping to support affordable homeownership for low- and moderate-income families in America. HUD's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

The FY 2004 budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities.

The Native American Housing Block Grants (NAHBG) program provides funds to tribes and to tribally designated housing entities for a wide variety of affordable-housing activities. Grants are awarded on a formula basis that was established through negotiated rulemaking with the tribes. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.

The Title VI Federal Guarantees for Tribal Housing program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable-housing activities but who cannot borrow from private sources without the guarantee of payment by the Federal Government. Because the grantees have not applied for all funds appropriated in prior years, the amount of subsidy required in FY 2004 is reduced from $2 million to $1 million, and the loan amount supported is reduced from $16.6 million to $8 million. Prior-year funds remain available until used.

The Indian Housing Loan Guarantee (Section 184) program helps Native Americans to access private mortgage financing for the purchase, construction, or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In FY 2004, $1 million is requested in credit subsidy for 100 percent federal guarantees of approximately $27 million in private loans.

The Hawaiian Homelands Homeownership Act of 2000 established the Native Hawaiian Home Loan Guarantee Fund, which is modeled after Section 184. The FY 2004 budget will provide $1 million in credit subsidy to secure approximately $35 million in private loans.

Modeled after the NAHBG, the Native Hawaiian Housing Block Grant (NHHBG) was authorized by the Hawaiian Homelands Homeownership Act of 2000. The FY 2004 budget will provide $10 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support acquisition, new construction, reconstruction and rehabilitation. Activities will include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning.

PROMOTING DECENT AFFORDABLE HOUSING

Ideally, homeownership would be an option for everyone, but even with its new and expanded homeownership initiatives, the Administration recognizes that many families will have incomes insufficient to support a mortgage in the areas where they live. Therefore, along with boosting homeownership, HUD's proposed FY 2004 budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing states and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Finally, HUD subsidizes the operation, maintenance, and modernization of an additional 1.2 million public housing units.

HUD is proposing a new initiative – Housing Assistance for Needy Families (HANF) – under which the funding for vouchers, which has been allocated to approximately 2,600 public housing authorities (PHAs), would be allocated to the states. States, in turn, could choose to contract with PHAs or other entities to administer the program. The funding for both incremental and renewal vouchers will be contained in the HANF account.

There are a number of advantages to providing the voucher funds to the states. The allocation of funds to states rather than PHAs should allow for more flexibility in efforts to address problems in the underutilization of vouchers that have occurred in certain local markets. The allocation of funds to the states will be coupled with additional flexibility in program laws and rules, to allow states to better address local needs and to commit vouchers for program uses that otherwise would go unused. In the former Housing Certificate Fund, more than $2.41 billion has been recaptured over the last two years from the Housing Choice Voucher program. These large recaptures have resulted in a denial of appropriated housing assistance for thousands of families, which will be avoided under HANF. The administration of the HANF program should run more smoothly, with HUD managing fewer than 60 grantees compared to approximately 2,600 today.

Allocation of the funds to the states should allow for more coordinated efforts with the Temporary Assistance for Needy Families (TANF) program, and the One-Stop Career Center system under the Workforce Investment Act, successfully administered by the states, to support the efforts of those now receiving public assistance who are climbing the ladder of self-sufficiency.

HUD proposes that FY 2004 be a transition year in which PHAs would continue to receive voucher funds directly while states ramp up in preparation for administering the HANF program. Up to $100 million would be made available to assist states with this effort. In addition, states could apply for incremental vouchers if they are ready to do so, and could request waivers that would assist in the implementation of their programs.

The HANF account would contain $13.6 billion in funding for voucher renewals and incremental vouchers. This would include funding for up to $36 million in incremental vouchers for persons with disabilities, additional incremental vouchers to the extent that funding is available, $252 million for tenant protection vouchers to prevent displacement of tenants affected by public housing demolition or disposition of project-based Section 8 contract terminations or expirations, and $72 million for Family Self-Sufficiency Coordinators.

For FY 2004, the Administration proposes separate funding for vouchers under the new HANF account. The Project Based Rental Assistance Account will retain funding for renewals of expiring project-based rental assistance contracts under Section 8, including amounts necessary to maintain performance-based contract administrators. An appropriation of $4.8 billion is requested for these renewals in FY 2004, which is a $300 million increase over the current fiscal year. In addition to new appropriations, funds available in this account from prior-year balances and from recaptures will augment the amount available for renewals and will be available to meet amendment requirements for on-going contracts that have depleted available funding, as well as a rescission of $300 million.

It is anticipated that approximately 870,000 project-based units under rental assistance will require renewal in FY 2004, an increase of about 50,000 units from the current fiscal year, continuing the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle. The HANF account funds an estimated 30,300 units in subsidized or partially assisted projects requiring tenant-protection vouchers due to terminations, opt-outs, and prepayments.

Public Housing is the other major form of assistance that HUD provides to the nation's low-income population. In FY 2004, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,050 PHAs. Like the Section 8 program, tenants pay approximately 30 percent of their income for rent and utilities, and HUD subsidies cover the remaining costs.

HUD is programmatically and financially committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHAs for both operating expenses and modernization costs. Legislation to implement a new financing initiative is included and enhanced in the FY 2004 budget. This will allow for the acceleration of the reduction in the backlog of modernization requirements in public housing facilities across the nation.

The formula distribution of funds through the Public Housing Operating Fund takes into account the size, location, age of public housing stock, occupancy, and other factors intended to reflect the costs of operating a well-managed public housing development. In FY 2004, HUD will increase the amounts provided for operating subsidies from $3.530 billion to $3.559 billion, plus $15 million to fund activities associated with the Resident Opportunities and Supportive Services (ROSS) program.

The Public Housing Capital Fund provides formula grants to PHAs for major repairs and modernization of its units. The FY 2004 budget will provide $2.641 billion in this account. This amount is sufficient to meet the accrual of new modernization needs in FY 2004.

Of the funds made available, up to $40 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to $30 million can be used for demolition grants – to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in FY 2004, up to $40 million will be available for the ROSS program (in addition to $15 million in the Operating Fund), which provides supportive services and assists residents in becoming economically self-sufficient.

To address the backlog of capital needs, the Department is including a legislative proposal in its 2004 budget called the Public Housing Reinvestment Initiative (PHRI) that will allow PHAs to use their Operating Fund and Capital Fund grants to facilitate the private financing of capital improvements. This initiative also will encourage development-based financial management and accountability in PHAs.

These objectives would be achieved by authorizing HUD to approve, on a property-by-property basis, PHA requests to convert public housing developments (or portions of developments) into project-based voucher assistance. The conversion of units to project-based vouchers will allow the PHAs to secure private financing to rehabilitate or replace their aging properties by pledging the property as collateral for private loans for capital improvements.

The FY 2004 budget enhances this proposal, which was made in last year's budget request, by also proposing a guarantee of up to 80 percent of the principal of loans made to provide the capital for PHRI. There was substantial interest by PHAs and others in last year's budget proposal; the loan guarantee should greatly facilitate the involvement of private lenders. The budget includes $131 million in subsidy for this guarantee, which would allow the guarantee of almost $2 billion in loans and significantly accelerate the improvement in public housing conditions.

The PHRI reflects our vision for the future of public housing.

For 10 years, the HOPE VI program has been the government's primary avenue for funding the demolition, replacement, and rehabilitation of severely distressed public housing. With $2.5 billion already awarded but not yet spent, and an additional $1 billion to be awarded in 2002 and 2003, HOPE VI will continue to serve communities well into the future.

When HOPE VI was first created, it was the only significant means of leveraging private capital to revitalize public housing properties. But that is no longer the case. Today, HUD has approved bond deals that have leveraged over $500 million in the last couple of years. PHAs can mortgage their properties to leverage private capital. In Maryland, PHAs are forming consortiums to leverage their collective resources and assets to attract private capital. Cities such as Chicago are committing hundreds of millions of dollars of their own money to revitalize public housing neighborhoods. HUD is also seeking additional tools from Congress such as the Public Housing Reinvestment Initiative.

HOPE VI has served its purpose. Established to revitalize 100,000 of the Nation's most severely distressed public housing units, the program has funded the demolition of over 115,000 severely distressed public housing units and the production of over 60,000 revitalized dwellings. There are also more effective and less costly alternatives. The average cost per rebuilt HOPE VI unit is approximately $120,000, compared to $80,000 in HUD's HOME program. Only 20,000 new HOPE VI units have been completed to date. On average, five years pass between the time a HOPE VI award is made and a new unit is occupied. In contrast, during the same period, HUD's HOME program produced 70,000 new rental units with an average construction time of about 2 years. It is time to look to the future and pursue new opportunities, such as those I have noted, which can more effectively serve local communities.

Among HUD's other rental assistance programs, FHA insures mortgages on multifamily rental housing projects. In FY 2004, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the second year in a row – from 57 basis points to 50 basis points. With this reduction, the Department estimates that it will insure $3 billion in apartment development loans through this program, for the annual production of an additional 42,000 new rental units, most of which will be affordable to moderate-income families, and most of which will be located in underserved areas. Additionally, because this program is no longer dependent on appropriated subsidies, FHA avoids the uncertainty and the suspensions that have plagued the program in prior years. When combined with other multifamily mortgage programs, including those serving non-profit developers, nursing homes, and refinancing mortgagors, FHA anticipates providing support for a total of some multifamily 178,000 housing units.

In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. The program has, in fact, supported the building, rehabilitation, and purchase of more than 322,000 rental units. Program funds have also provided direct rental assistance to more than 88,000 households.

The Native American Housing Block Grant (NAHBG) and Native Hawaiian Housing Block Grant (NHHBG) are also used for a wide variety of affordable-housing activities. Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant (CDBG) program can be used to support rental housing activities.

Regulatory barriers on the state and local level have an enormous impact on the development of rental and affordable housing. HUD is committed to working with states and local communities to reduce regulatory and institutional barriers to the development of affordable housing. HUD plans to create a new Office of Regulatory Reform and commit an additional $2 million in FY 2004 for research efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Through this office, researchers will develop the tools needed to measure and ultimately reduce the effects of excessive barriers that restrict the development of affordable housing at the local level.

STRENGTHENING COMMUNITIES

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work, and raise a family. The FY 2004 budget provides states and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address locally determined development priorities through decisions made locally.

The mainstay of HUD's community and economic development programs is the CDBG program. In FY 2004, total funding requested for CDBG is $4.732 billion. Funding for the CDBG formula program will increase $95 million from the FY 2003 enacted level, to $4.436 billion. Currently, 865 cities, 159 counties, and 50 states plus Puerto Rico receive formula grant funds.

HUD is analyzing the impact of the 2000 Census on the distribution of CDBG funds to entitlement communities and states. Based on this review, revisions to the existing formula may be proposed so that funds are allocated to those communities that need them the most and will use them effectively. Any proposals will, of course, consider measures of need and fiscal capacity, as well as other factors.

Of the $4.732 billion in FY 2004, $4.436 billion will be distributed to entitlement communities, states, and insular areas, and $72.5 million will be distributed by a competition to Indian tribes for the same uses and purposes. This budget presumes legislative changes proposed in FY 2003 to fund CDBG grants to insular areas as part of the formula, and to shift administration of the Hawaii Small Cities program to the State. The remaining $224 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis.

As it did in FY 2003, the FY 2004 budget again proposes $16 million for the Colonias Gateway Initiative (CGI). The CGI is a regional initiative, focusing on border states where the *colonias* are located. *Colonias* are small, generally unincorporated communities that are characterized by substandard housing, lack of basic infrastructure and public facilities, and weak capacity to implement economic development initiatives. The FY 2004 funds will: provide start-up seed capital to develop baseline socio-economic information and a geographic information system; identify and structure new projects and training initiatives; fund training and business advice; and provide matching funds to develop sustainable housing and economic development projects that, once proven, could be taken over by the private sector.

HUD participates in the privately organized and initiated National Community Development Initiative (NCDI). The FY 2004 budget will provide $30 million for the NCDI and Habitat for Humanity, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community-based development organizations, including community development corporations, in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation.

The FY 2004 budget provides $31.9 million to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

Grant funds are awarded competitively to work study and other programs to assist institutions of higher learning in forming partnerships with the communities in which they are located and to undertake a wide range of academic activities that foster and achieve neighborhood revitalization.

The FY 2004 budget requests $65 million for the Youthbuild program. This program is targeted to high school dropouts ages 16 to 24, and provides these disadvantaged young adults with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The FY 2004 request will serve more than 3,728 young adults.

The Community Renewal Tax Relief Act of 2000 authorized the designation of 40 Renewal Communities (RCs) and nine Round III Empowerment Zones (EZs), and provided tax incentives which can be used to encourage community revitalization efforts. Private investors in both RC and EZ areas are eligible for tax benefits over the next ten years tied to the expansion of job opportunities in these locations. These programs allow communities to design and administer their own economic development strategies with a minimum of federal involvement. No grant funds have been authorized or appropriated for RCs or Round III EZs. Round II Empowerment Zone communities have received grant funding in the past, but after four years of funding, still have balances of unused funds available. Of course, all of the tax and other benefits associated with Zone designation remain intact. Also, both HOME and CDBG funds can be used for the same activities.

The Administration is deeply engaged in meeting the challenge of homelessness that confronts many American cities. Across the scope of the federal government, funding for homeless-specific assistance programs increases 14 percent in the FY 2004 budget proposal. We are fundamentally changing the way the nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

HUD is leading an unprecedented, Administration-wide commitment to eliminating chronic homelessness within the next 10 years. Persons who experience chronic homelessness are a sub-population of approximately 150,000 individuals who often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. For the most part, these individuals get help for a short time but soon fall back to the streets and shelters. Research indicates that although these individuals may make up less than 10 percent of the homeless population, they consume more than half of all homeless services because their needs are not comprehensively addressed. Thus, they continually remain in the homeless system.

As a first step, the Administration reactivated the U.S. Interagency Council on Homelessness. Reactivating the Council has provided better coordination of the various homeless assistance programs that are directly available to homeless individuals through HUD, HHS, VA, the Department of Labor, and other agencies. $1.5 million is earmarked within the Homeless Assistance Account for the operations of the Council in FY 2004.

HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and make the funding process simpler for those who provide homeless services. The FY 2004 budget continues to provide strong support to homeless persons and families by funding the HUD homeless assistance programs at the record level of $1.528 billion.

Several changes to the program are being proposed that will provide new direction and streamline the delivery of funds to the local and non-profit organizations that serve the homeless population.

The FY 2004 budget includes funding for a new program to address the President's goal of ending chronic homelessness in 10 years: the Samaritan Initiative. Funded by HUD at $50 million, the Samaritan Initiative will provide new housing options as well as aggressive outreach and services to homeless people living on the streets. This program is part of a broader, coordinated federal effort between HUD, HHS, VA and the Interagency Council on Homelessness.

In order to significantly streamline homeless assistance in this nation and increase a community's flexibility in combating homelessness, HUD will propose legislation to consolidate its current homeless assistance programs into a single program.

The Administration is also proposing legislation that would transfer intact the Emergency Food and Shelter Program (EFSP) that was administered by FEMA to HUD. The transfer of this $153 million program would allow for the consolidation of all emergency shelter assistance – EFSP and the Emergency Shelter Grant program – under one agency. EFSP funds are distributed to a National Board, which in turn allocates funds to similarly comprised local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty, and unemployment data. The Board will be chaired by the Secretary of HUD and will include the American Red Cross, Salvation Army, and the United Way, as well as other experts.

In addition to funding homeless supportive services, the FY 2004 funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

Nearly two million households headed by an elderly individual or a person with disabilities receive HUD rental assistance that provides them with the opportunity to afford a decent place to live and oftentimes helps them to live independent lives.

The FY 2004 budget will provide the same level of funding for Housing for the Elderly and Housing for Persons with Disabilities as was requested for FY 2003. The effectiveness of the Housing for the Elderly program was evaluated this past year using the Office of Management and Budget's new Program Assessment Rating Tool (PART), and received low performance scores. The Administration recognizes the need to improve delivery of housing assistance to the elderly (Section 202) and will examine possible policy changes or reforms to strengthen performance. Funding for housing for the elderly is awarded competitively to non-profit organizations that construct new facilities. The facilities are then provided with rental assistance, enabling them to accept very low-income residents. In FY 2004, $773 million plus $10 million in recaptures will be provided for elderly facilities. Many of the residents live in the facilities for years; over time, these individuals are likely to become frailer and less able to live in rental facilities without some additional services. Therefore, the program is providing $30 million of the grants for construction to convert all or part of existing properties to assisted-living facilities. Doing so will allow individual elderly residents to remain in their units. In addition, $53 million of the grant funds will be targeted to funding the services coordinators who help elderly residents obtain needed and supportive service from the community.

The budget for FY 2004 proposes to separately fund grants for Supportive Housing for Persons with Disabilities (Section 811) at $251 million. The disabled facilities grant program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In FY 2004, $42 million of the grant funds will be provided to renew "mainstream" Section 8-type vouchers so that, where appropriate, individuals can continue to use their vouchers to obtain rental housing in the mainstream rental market. The Housing for Persons with Disabilities program also received low performance scores when it was evaluated using the PART. The Department proposes to reform the program to allow faith-based and other nonprofit sponsors more flexibility in using grant funds to better respond to local needs. In addition, the reformed program would recognize the unique needs of people with disabilities at risk of homelessness, and give priority to serving this group as part of the Administration's Samaritan Initiative to end chronic homelessness.

One of the targeted uses of new incremental vouchers under the Section 8 program is for non-elderly disabled individuals who are currently residing in housing that was designated for the elderly. Disabled individuals are provided Section 8 vouchers to continue their subsidies elsewhere. If a sufficient number of applications for these vouchers are not received, the PHAs may use them for any other disabled individuals on the PHAs' waiting lists. In FY 2004, the Department will allocate $36 million for the non-elderly disabled to fund approximately 5,500 vouchers.

HUD will also provide $297 million in FY 2004 in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. This is an increase of $5 million over the FY 2003 level and is based on the most recent statistics prepared by the Centers for Disease Control and Prevention. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion are provided through competition for projects of national significance. The program will renew all existing grants in FY 2004 and provide new grants for an expected three new jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 114 in FY 2004.

HUD's Lead-Based Paint Program is the central element of the President's program to eradicate childhood lead-based paint poisoning in 10 years or less. In FY 2004, funding for the lead-based paint program will increase to $136 million from $126 million provided in the President's request for FY 2003. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards. Included in the total funding is $10 million in funds for Operation LEAP, which is targeted to organizations that demonstrate an exceptional ability to leverage private sector funds with Federal dollars, and funding for technical studies to reduce the cost of lead hazard control. The program also conducts public education and compliance assistance to prevent childhood lead poisoning. The President's budget requests an additional $25 million for a new, innovative lead hazard reduction demonstration program to eliminate lead-based paint hazards in homes of low-income children, funded under the HOME program. This new program will provide creative ways of identifying and eliminating lead-based paint hazards – methods that will serve as models for existing lead hazard control programs, such as replacing old windows contaminated with high levels of lead paint dust with new energy-efficient windows.

Also included is $10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. Working with other agencies such as the Centers for Disease Control and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science, and engineering to address a variety of childhood problems that are associated with housing.

HUD is requesting $17 million in FY 2004 to meet the expanded costs of its Manufactured Housing Standards Program. This is a $4 million increase over the current fiscal year. These funds will meet the costs of hiring contractors to inspect manufacturing facilities, make payments to the states to investigate complaints by purchasers, and cover administrative costs, including the Department's staff. Fees have been set by regulation to support the operation of this program.

ENSURING EQUAL OPPORTUNITY IN HOUSING

In this land of opportunity, no one should be denied housing because of that individual's race, color, national origin, religion, sex, familial status or disability. The Administration is committed to the fight against housing discrimination, and this is reflected in HUD's budget request for FY 2004.

HUD is the primary Federal agency responsible for the administration of fair housing laws. The goal of these programs is to ensure that all families and individuals have access to a suitable living environment free from discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the Federal fair housing laws and by funding state and local fair housing efforts through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The FY 2004 budget will provide $29.7 million – an increase of $4 million above the FY 2003 level – under FHAP to support state and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The increase will provide: (1) an education campaign to address persistently high rates of discrimination against Hispanic renters (as identified by the 2000 Housing Discrimination Study); (2) funding for a Fair Housing Training Academy to better train civil rights professionals and housing partners in conducting fair housing investigations; and (3) additional funding for expected increases in discrimination cases processed by state and local fair housing agencies as a result of increased education and outreach activities. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, special enforcement efforts, training, and the enhancement of data and information systems. FHAP grants are awarded annually on a noncompetitive basis.

The FY 2004 budget will provide $20.3 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement. The FHIP program for FY 2004 is structured to respond to the finding of the 3-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination.

Fighting predatory lending is an important activity for FHIP agencies, as reports continue to show that abusive lenders frequently target racial minorities, the elderly, and women for mortgage loans that have exorbitant fees and onerous conditions.

Educational outreach is a critical component of HUD's ongoing efforts to prevent or eliminate discriminatory housing practices. HUD will continue its work to make individuals more aware of their rights and responsibilities under the Fair Housing Act. A major study titled "How Much Do We Know" emphasized the continuing need for public education on fair housing laws; in FY 2004, FHIP organizations throughout the country will continue to fund a major education and public awareness campaign in support of study findings.

The *colonias* have many barriers to fair and affordable housing in both rental and homeownership. Many of the residents are recent immigrants unaware of their rights under the Fair Housing Act. Funds will be targeted to FHIP agencies that provide education and enforcement efforts in those areas. FHIP-funded fair housing organizations with grants targeted to the *colonias* will provide residents with information on the Fair Housing Act and substantially equivalent laws and respond to allegations of discriminatory practices.

The FHIP program will continue to emphasize the participation of faith-based and community partners. Recognizing the tremendous impact that education has on the implementation of fair housing laws, virtually any entity (public, private, profit, and non-profit) that actively works to prevent discrimination from occurring is eligible to apply for funds under this initiative.

Faith- and community-based partnerships in FHIP will empower citizens by: (1) encouraging networking of state and local fair housing enforcement agencies and organizations; (2) working in unison with faith-based organizations; and (3) promoting a fair housing presence in places where little or none exists today. HUD will emphasize partnerships with grassroots and faith-based organizations that have strong ties to those groups identified in the 2000 Housing Discrimination Study as being most vulnerable to housing discrimination, particularly the growing Hispanic population.

Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHIP. Fair Housing Act accessibility design and construction training and technical guidance is being implemented through Project Fair Housing Accessibility First (formerly called the Project on Training and Technical Guidance). The project, which is now in its second year, will provide training at 48 separate venues to architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. During that same period, Project Fair Housing Accessibility First will maintain a hotline and a website to provide personal assistance to housing professionals on design and construction problems.

PROMOTING THE PARTICIPATION OF FAITH-BASED AND COMMUNITY ORGANIZATIONS

HUD's Center for Faith-Based and Community Initiatives ("the Center") was established by Executive Order 13198 on January 29, 2001. Its purpose is to coordinate the Department's efforts to eliminate regulatory, contracting, and other obstacles to the participation of faith-based and other community organizations in social service programs.

The Center will continue to play a key role in FY 2004 in facilitating intra-Departmental and interagency cooperation regarding the needs of faith-based and community organizations. It will focus on research; law and policy; development of an interagency resource center to service faith-based and community partners; and expanding outreach, training, and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives—particularly as they relate to partnership with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." Its intent is to ensure that faith-based and community organizations are not unjustly discriminated against by regulations and bureaucratic practices and policies. The Order directs the Center to: (1) amend any policies that contradict the Order; (2) where appropriate, implement new policies that are necessary to further the fundamental principles and policymaking criteria set forth in the Order; (3) implement new policies to ensure collection of data regarding the participation of faith-based and community organizations in social service programs that receive federal financial assistance; and (4) report to the President the actions it proposes to undertake to implement the Order.

In compliance with Executive Orders 13198 and 13279, the Center will continue to participate in implementing HUD's strategic goals and objectives, as well as the following key responsibilities: conduct an annual Department-wide inventory to identify barriers to participation of faith-based and community organizations in the delivery of social services; initiate and support efforts to remove said barriers; widen the pool of grant applicants to include historically excluded groups; identify and reach out to faith- and community-based organizations with little or no history of working with HUD; work with HUD program offices to strengthen and expand their faith-based and community partnerships; and educate HUD personnel and state and local governments on the faith-based and community initiative.

EMBRACING HIGH STANDARDS OF ETHICS, MANAGEMENT, AND ACCOUNTABILITY

Improving the performance in HUD's critically needed housing and community development programs begins at home in the Department, by embracing high standards of ethics, management and accountability. The President's Management Agenda is focused on how we can better manage to fulfill our mission by addressing the Department's longstanding major management challenges, high-risk program areas, and material management control weaknesses. Accountability begins with clarity on the Department's goals, priorities and expectations for performance results. We have integrated the goals of the President's Management Agenda with our budget, our annual management operating plans, and our management performance evaluation processes, to better assure accountability and results.

A key focus of the President's Management Agenda is to address deficiencies in HUD's management of its financial and information systems and human capital, which have hindered the Department's ability to properly control and mitigate risks in the rental housing assistance and single family mortgage insurance programs. There are no quick fixes for these longstanding problems, but we continue to pursue a deliberate and methodical improvement process that is clearly demonstrating progress in improving HUD's program delivery structure and performance results.

Financial Management and Information Systems

A primary focus of the past two years has been on addressing the Department's most significant financial management systems deficiencies in the FHA, and on stabilizing and enhancing HUD's existing core financial management systems operating environment. The FHA Subsidiary Ledger Project is proceeding on-schedule as a multi-year, phased effort to replace FHA's commercial accounting system with a system that fully complies with federal requirements, including budgetary accounting and funds control and credit reform accounting. A major project milestone was accomplished with the successful implementation of the new FHA general ledger system in October 2002. Enhanced funds control capabilities of the new system are scheduled for implementation in 2004, and FHA will continue to adapt and further integrate its 19 insurance program feeder systems over the next several years to achieve full systems compliance by 2006.

While FHA awaits the completion of these systems improvements, they have been working with the HUD Chief Financial Officer on a Department-wide effort to improve HUD's funds control. HUD's handbook on policies and procedures for the administrative control of funds had not been updated since 1984. We updated and strengthened these policies and procedures in a new Administrative Control of Funds Handbook issued in December 2002.

With respect to HUD's core financial management system, the HUD Central Accounting and Program System (HUDCAPS), we have been focused on stabilizing and enhancing systems operations to support the accelerated preparation and audit of HUD's consolidated financial statements. We eliminated two reportable conditions from the OIG's FY 2000 financial statement audit related to: 1) the reliability and security of HUD's critical financial systems, and 2) controls over fund balance with Treasury reconciliations. We prepared mid-year financial statements in FY 2002 and have begun the preparation of quarterly statements in FY 2003. Our year-end audit and reporting process was accelerated by one month for FY 2002, and we have plans for further acceleration the next two years to meet the OMB mandate for issuance of our FY 2004 audited financial statements by November 15, 2004.

HUD has received unqualified audit opinions on the Department's consolidated financial statements for the last three consecutive years—a strong indicator of financial management stability and accountability. However, the audit of our FY 2002 financial statements was not trouble free. It contained 3 material weakness and 10 reportable conditions. Addressing these remaining internal control deficiencies is a high priority for the Department.

While HUD's core financial management system, HUDCAPS, is substantially compliant with federal financial management systems requirements, it is inefficient and expensive to maintain. We initiated the HUD Integrated Financial Management Improvement Project (HIFMIP) to study options for the next generation core financial management system to replace HUDCAPS. Previous HUD systems integration improvement efforts failed to fully meet their intended objectives due to inadequate planning and commitment. HUD is taking the time to properly plan this project. A HIFMIP Executive Advisory Committee was convened in January 2003 -- with representation from the Principal Staff of HUD's major organizational components, including FHA and GNMA, and an advisory role has been provided for the HUD OIG. A new Assistant CFO for Systems was hired in October 2002, and Project Manager was hired for HIFMIP in February 2003. The HIFMIP Vision is scheduled for completion by January 2004, and feasibility studies with a systems recommendation by July 2004.

HUD's overall FY 2004 information technology (IT) portfolio will benefit from our continuing efforts to improve the IT capital planning process, convert to performance-based IT service contracts, strengthen IT project management to better assure results, extend the data quality improvement program, and improve systems security on all platforms and applications. HUD is also continuing to pursue increased electronic commerce and is actively participating in the President's "E-Government" projects to better serve our citizens and realize cost-efficiencies through standardized systems solutions in common areas of information and processing need.

Human Capital Management

HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission. Effective human capital management is the purview of all HUD managers and program areas, and improvements have been geared towards meeting HUD's primary human capital management challenges. HUD has taken significant steps to enhance and better utilize its existing staff capacity, and to obtain, develop and maintain the staff capacity necessary to adequately support HUD's future program delivery. Building upon the REAP and TEAM management tools, a new staff resource estimation and allocation system implemented in 2002, HUD will complete a Comprehensive Workforce Analysis in 2004 to serve as the main component to fill mission critical skill gaps through succession planning, hiring and training initiatives in a Five-Year Human Capital Management Strategy.

HUD is working to determine where application of competitive sourcing to staff functions identified as commercial would result in better performance and value for the government. We have worked with OMB to ensure the appropriate amount and mix of competitive sourcing opportunities, taking into account the workforce we have inherited, including the significant downsizing and extensive outsourcing of administrative and program functions over the past decade. HUD's Competitive Sourcing Plan identifies some initial opportunities for consideration of possible outsourcing, in-sourcing or direct conversion studies to realize the President's goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Strengthening Controls Over Rental Housing Assistance

HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing projects are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through FY 2005 and are raising the bar with new goals. However, HUD overpays hundreds of millions of dollars in rental housing subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the President's Management Agenda, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD has established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004.

To achieve our erroneous assistance payments reduction goal, we have taken steps to reestablish an adequate HUD monitoring capacity in the field to oversee intermediary performance. Field staff is conducting intense, on-site monitoring reviews to detect and correct income verification and subsidy calculation errors. We are also working to provide intermediaries with improved program guidance and automated tools to more efficiently and effectively administer the rental assistance programs. Program simplification proposals are also under consideration, along with a pending legislative proposal for increased authority to perform more effective computer matching with tenant income data sources to enable intermediaries to perform upfront verifications of income used in rent and subsidy calculations. Updated error measurement studies will be performed on program activity in 2003 through 2005 to assess the effectiveness of our efforts to reduce program and payment errors.

Improving FHA's Single Family Housing Programs Risk Management

FHA manages its single-family housing mortgage insurance program area in a manner that balances program risks with the furtherance of program goals, while maintaining the financial soundness of the Mortgage Mutual Insurance (MMI) Fund that supports these programs. The MMI Fund is financially sound and the single-family housing programs are contributing to record homeownership rates, with a focus on homebuyers that are underserved by the conventional market. Nevertheless, overall program performance and the condition of the MMI Fund could be further improved if all lenders, appraisers, property managers and other participants in FHA's program delivery structure fully adhered to FHA program requirements designed to reduce program risks and further program goals.

In the past two years, FHA has initiated or completed numerous actions to improve the content, oversight and enforcement of its program requirements, including consideration of alternative business processes. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch program, improvements to the Credit Watch program that will identify problem loans and lenders earlier on, new standards for home inspectors, a final rule to prohibit property "flipping" in FHA programs, and rules to prevent future swindles like the 203(k) scam that threatened the availability of affordable housing in New York City. These reforms, and the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

In addition, FHA continues to enhance its staff capacity for administering this program area, and continues to achieve favorable property disposition results through its performance-based management and marketing (M&M) contracts. M&M contracts have resulted in a steady decline in FHA's property inventory, from 36,000 homes at the end of FY 2000 to 30,113 at the end of FY 2002. The loss per claim on insured mortgage defaults has been cut from 37 percent to 29.5 percent.

CONCLUSION

As we implement our proposed FY 2004 budget, we will also judge our success by the lives and communities we have helped to change through HUD's mission of compassionate service to others: the young families who have taken out their first mortgage and become homeowners, the homeless individuals who are no longer homeless, the neighborhoods that have found new hope, the faith-based and community organizations that are today using HUD grants to deliver social services, and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by HUD's proposed budget for Fiscal Year 2004, our communities and the entire nation will grow even stronger. And more citizens will come to know the American Dream for themselves.

I would like to thank each of you for your support of my efforts, and I welcome your guidance as we continue our work together.

Thank you.

Question for Secretary Mel Martinez from Congressman Vito Fossella

Question 1:
I understand that HUD has eliminated Brownfield Economic Development Grants (BEDI) from your '04 budget recommendations for Congress. I just want to take a minute to emphasize the importance of this program and then let you respond as to why it was eliminated.

From a New York perspective, Brownfield Grants have been instrumental in rebuilding valuable property in the city that had sat dormant for years because of the environmental liabilities and costs that come with redeveloping what we refer to as Brownfields. In my view, this program is becoming more and more important, as we have watched much of the undeveloped property, or greenfields, become as overdeveloped as the city. In the case of Staten Island, any underdeveloped property is highly valued open space and many of my constituents on the Island would rather not see it developed. By continuing the BEDI funds, it gives cities like my own an opportunity to redevelop property, while simultaneously cleaning up what could potentially be hazardous areas.

So, again, I just want to emphasize the importance of this program and offer you the opportunity to respond.

Response:
The enactment of the Small Business Liability Relief and Brownfields Revitalization Act last year vested EPA with significant new powers and resources to assist in brownfields revitalization, including for the first time the ability to fund remediation efforts. Two years before passage of the EPA law, Congress recognized that the most effective means of spurring private sector investment in brownfields redevelopment was through a significant expansion of the Federal Environmental Cleanup Cost Deduction. This Federal tax incentive is now available to all communities. By contrast, because HUD's BEDI program has remained linked to our Section 108 Loan Guarantee program, only a limited number of the nation's 1100 CDBG Entitlement communities and a handful of smaller communities have applied for BEDI and 108 funds since they require larger communities, and States in the case of the smaller nonentitlement communities, to pledge Community Development Block Grant funds as security for the 108 loan.

Although HUD would no longer administer a program specifically targeted to brownfields redevelopment under the President's budget, the agency will continue to provide significant resources for local brownfields redevelopment efforts through the continued availability of CDBG funds, which are already widely used to assist in local brownfields redevelopment projects. While the new EPA law does not specifically authorize funding for redevelopment activities, other Federal agencies engaged in brownfields redevelopment, including USDA, EDA and HUD, will continue to provide significant levels of brownfields redevelopment sources through our core programs.

Questions for Secretary Mel Martinez from Congressman Patrick Tiberi

Question 1:
The nation has lost more than 197,000 units of federally subsidized affordable housing over the last several years, including more than 9500 in Ohio (National Housing Trust, 2002). More than 1/3 of those units housed poor seniors. The people in my District are interested in what HUD is proposing in its FY04 request to assist in preserving more units. Are there additional tools or enhanced programs that will be available to nonprofits within the FY04 request?

Response:
A number of Federal programs provide affordable housing. Section 202 and 811 provides funding for the construction or rehabilitation of approximately 7,500 units per year for the elderly and persons with disabilities.

FHA's multifamily insurance programs support affordable rental housing. Last year, FHA provided insurance for over $2.8 billion worth of new rental housing - 39,000 apartments. That was double the amount provided the year before. This year, we are on course to match that production level. We know that about 80% of these apartments are affordable to families in the lower half of the income distribution.

We have seen insurance applications from markets where we haven't seen applications in years - Philadelphia, Newark, Baltimore, the Twin Cities and here in the Washington area.

The Department also provides substantial housing resources to state and local governments through its Home and CDBG programs. The HOME program, for example, provides states and local government approximately $1.8 billion each year. About 26% of those funds are spent on new rental housing and 23% on the rehabilitation of rental housing - about $900 million per year. Overall, states and cities have spent $10.6 billion since the program was created in 1990. They have helped build or rehabilitate 400,000 rental units, and have given tenant rental assistance - a local voucher - to about 75,000 more.

CDBG can be used for rental housing construction, if the money is provided through CHODOs. About 3% of the $5.0 billion each year is spent in this way – which is $150 million each year.

Besides producing new rental housing, the Department also preserves the existing stock of subsidized units. By the end of June, OMHAR has preserved over 143,000 units, putting them on a sound financial footing and to preserving them for low-income families for the next 30 years. The Department is about halfway through the restructuring process, and hopes to be able to complete the job, now that Congress has extended OMHAR for another three years.

Since its inception, OMHAR has preserved another 30,000 units for low-income families.

Question 2:
It appears that there are some actions HUD can take now to assist 202 Elderly projects to move forward - both for refinancing to bring needed capital into projects for preservation purposes and for new construction. Both of these objectives can begin to be achieved when HUD implements mixed financing authorities. Congress authorized Section 202 providers to use mixed financing sources like the low-income housing tax credit in the FY01 HUD appropriations bill. However, HUD has not issued any implementing guidelines or regulations (even though Congress reminded it to do so last year in the FY02 Labor-HHS appropriations bill). Now, 2 years' worth of approved Section 202 mixed finance applicants cannot move forward because of HUD's lack of action. Is there any chance that HUD will soon issue an interim regulation so that these projects can move forward?

Response:
The Department has worked aggressively to implement the provisions of the American Homeownership Act of 2001. Due to a large number of proposed Section 202 refinance transactions, the Department initially focused on that provision of the Act and published a Notice implementing the refinancing provision in the summer of 2002. The Interim Regulation which will provide guidance to sponsors when utilizing the mixed finance /mixed use development option of the Act is in the final stages of Departmental review. This option will allow other funding, including those from tax credit investors, to be used in conjunction with the Section 202/811 grants to produce additional affordable housing units and/or additional services for low-income elderly households. We expect to complete our review process and make the rule available to Congress within the next several months.

Question 3:
Does the 2004 budget proposal contain sufficient funding for 100% of operating subsidy for housing authorities?

Response:
The FY 2004 budget proposes an appropriation of $3.574 billion for the Public Housing Operating Fund, of which $3.559 billion will be distributed by formula to the nation's PHAs. HUD estimated that the amount is sufficient to meet the formula-based requirements of the PHAs in FY 2004. However, forecasting of volatile components such as utility costs, local wage and non-wage inflation, and rental income is always challenging. What HUD can guarantee is that the funds appropriated by Congress for FY 2004 will be used only for FY 2004 requirements. No portion of the request will be used for prior fiscal year needs.

Question 4:
The FY 2004 budget proposes to shift funding (in the form of a block grant) and administrative responsibilities to the States for the Section 8 Program in FY 05. Would you please explain why?

Response:
HUD believes that converting the current program to a block grant approach will improve the delivery of rental and homeownership subsidies for low-income families and eliminate the significant recapture and utilization problems that are part of the operation of the current tenant-based program. HUD and Congress share concerns that this key program is not functioning efficiently to the detriment of both needy families and taxpayers. The tenant-based assistance program now provides rental and homeownership assistance to more than 1.8 million families. Despite this success, during the past several years, billions of dollars of funds appropriated for tenant-based assistance have remained unspent, and as a result several hundred thousand families have not been provided housing assistance made available by Congress. The complexity of the tenant-based assistance program, its inability to allow adequate timely adjustments to changing local markets, and its multiplicity of federal directives, all have contributed to the failure to use appropriated funds. The linkage between housing assistance and the government's role in supporting self-sufficiency efforts of families is critical, and this role is now largely carried out by the States under the Temporary Assistance for Needy Families (TANF) program and other programs. Since assuming responsibility for the TANF program, and with respect to other initiatives, States have shown that they can bring creative, effective administration to programs for assistance to needy families.

HUD believes that providing housing assistance through a State-administered block grant will:

- Provide for the program flexibility and oversight so that funds are used promptly and effectively to assist needy families;
- Facilitate greater program responsiveness to local markets and needs;
- Provide for administrative decision-making closer to the communities and families affected, by their elected officials;
- Provide for additional program flexibility to address local needs;
- Allow flexibility at the State level for reallocation of funds or other actions that may be necessary so that program funds are expended promptly; and
- Improve government support of self-sufficiency efforts by assisted families, by facilitating greater coordination with the TANF program and other State programs.

Question 5:
The Coalition on Homelessness and Housing in Ohio (COHHIO) has received funding from HUD's Outreach and Technical Assistance Grant (OTAG) program since 1999. With these funds, COHHIO is able to meet with tenants and community leaders throughout Ohio and informed about HUD's plans for their homes and communities. OTAG funds permit COHHIO to meet on the properties with tenants

and to encourage their participation in Mark-to-Market review processes.

In 2002, Congress mandated that all of the technical assistance grantees be audited by HUD's Inspector General. The HUD IG sent a two-person team to COHHIO's office for 6 weeks in May-June, 2002 and COHHIO was found to be in compliance with all program requirements, in other words the HUD IG made no findings regarding COHHIO's OTAG program. In several other states, however, OTAG grantees did have audit findings, which is not uncommon in IG audits. It is my understanding that <u>as a result of these findings elsewhere, HUD has suspended the work of many of COHHIO's colleagues in other states and is delaying issuing a Notice of Fund Availabilty on the basis that audit findings are not resolved.</u>

While COHHIO is continuing to do outreach throughout Ohio, they are concerned that HUD's delay in resolving these audits is jeopardizing the future of this valuable program.

Can the issue of the OTAG audit findings be resolved through the normal HUD process and allow future funding which is already authorized by the MAHRA Extension and the 2003 Appropriations bills to move forward?

Response:
The consolidated audit report was published on March 31, 2003, and the Department is currently implementing the management decisions associated with the March 31, 2003 audit of Section 514 grants.

Regarding the future funding of Section 514 Grants, the Department has committed to perform a Comprehensive Management Review of the administration of the Section 514 Grant process, including the deficiencies identified by the Inspector General in the recent audit reports. After this review is completed and appropriate program safeguards are incorporated into the program, the department will be in a position to consider new opportunities for funding under Section 514.

Questions for Secretary Mel Martinez from Congressman Ruben Hinojosa

Question 1:
Secretary Martinez, the Rural Housing and Economic Development Grant program in your agency has spurred tremendous change and has helped increase the quality of life for countless residents in South Texas and rural communities across America. I was deeply concerned when I learned that this program was zero funded in the President's 2004 Budget.

In looking into this matter, I learned that it was cut because OMB (Office of Management and Budget) said that it was a duplicative program offered under USDA. Further research into this matter has indicated that there is no grant program at USDA equal to the Rural Housing and Economic Development

Program. Since there is no grant program that stimulates rural economic development and rural housing production through flexible regulations, do you think that this program should be zero funded?

Response:
HUD's FY 2004 Budget proposal to terminate the Rural Housing and Economic Development Program reflects the existence of duplicative HUD and U.S. Department of Agriculture (USDA) efforts and the fact that USDA has far greater resources in this area. USDA manages a portfolio of rural housing grant programs and economic development grant programs. USDA's current rural development portfolio exceeds HUD's Rural Housing and Economic Development Program in terms of programs and services from budgets to staffing. The rural housing grant programs are the Rural Housing Assistance Program, the Rural Housing Voucher Program, and the Mutual and Self-Help Housing Program. The economic development grant programs are the Rural Development Enterprise Program and the Rural Business Opportunity Program.

The General Accounting Office (GAO) has suggested merging similar HUD and USDA programs in order to make the process more efficient and cost-effective. Our proposal addresses GAO's comments on the consolidation of capacity building activities.

Question 2:
What work is HUD doing to help address the severe housing problems residents along the U.S./Mexico Border face, especially those living in substandard housing sites locally known as "colonia" communities?

Response:
To address the deficiencies characteristic of "colonia" communities, HUD has developed and proposed the Colonias Gateway Initiative Act, legislation to "enhance the capacity of organizations working in the United States-Mexico border region to develop affordable housing and infrastructure and to foster economic opportunities in the colonias." Under the provisions of the Colonias Gateway Initiative Act, regional entities in the affected areas would be selected on a competitive basis to receive HUD monies to conduct eligible activities, as defined by the legislation. The Secretary of HUD would appoint an Advisory Committee to assist, review, and monitor grantees to ensure that funds are being utilized appropriately and in a manner pursuant to the intentions of the Initiative. Grant monies would total $16 million for fiscal year 2004; funding would continue as needed through FY 2009. On March 5, 2003, the Colonias Gateway Initiative Act was simultaneously introduced, with identical language, in both the House (Sponsored by Rep. Bonilla) and Senate (sponsored by Senator Hutchison, co-sponsored by Senator Bingaman).

In addition to its efforts on the Colonias Gateway Initiative, HUD continues to work closely with other federal agencies, namely USDA, to address the plight of communities along the U.S.-Mexico border and in the "colonias". Currently, the Department is nearing the completion of a HUD-USDA Memorandum of Understanding, intended to foster cooperation and coordination between the two agencies, each of which has the means and opportunity to play an integral role in improving conditions in affected communities.

Finally, HUD is committed to facilitating partnerships with banks, credit unions, and other institutions that have the capacity to assist colonia residents. The Department is constantly working to sustain existing relationships while seeking out additional resources and encouraging organizations and institutions with the means to aid in the colonias to do so.

Question 3:
What steps are you pursuing or planning to increase minority homeownership rates across America?

Response:
In support of the Administration's initiative to expand homeownership opportunities to all Americans, particularly minorities, the Department is devoting additional resources toward bilingual, English and Spanish, marketing and education on how to purchase a HUD-owned single-family property. This will increase homeownership opportunities in heavily concentrated minority markets. In addition, HUD is expanding homeownership opportunities through such initiatives as:

- Modifying the regulatory requirements under the Real Estate Settlement Procedures Act (RESPA) to expand homeownership, particularly among minorities who continue to significantly lag behind national homeownership rates and to first-time homebuyers who are less educated in the complexities of the mortgage settlement process;

- Creating the American Dream Downpayment Initiative, which will provide $200 million to help 40,000 low-income families each year with downpayment and closing costs;

- Expanding funding to $45 million in FY 2004 for housing counseling programs, which help families to better understand the home buying and refinance process and educate them against unscrupulous lenders;

- Tripling Self-Help Homeownership Opportunity Program (SHOP) funding to $65 million in FY2004 to help produce approximately 5,200 new homes nationwide for low-income families by providing grants to non-profit organizations and requiring homebuyers to contribute sweat equity to the construction or rehabilitation of the property; and,

- Preparing to increase homebuying opportunities by expanding its offerings of adjustable –rate mortgage (ARM) products on FHA- insured mortgages. Potential homebuyers would be able to choose mortgages with periods of three, five, seven or ten years, depending on their needs, during which time the interest rate would be fixed.

- To augment the amount of mortgage credit available to low – and moderate-income families, HUD is responsible for setting affordable – housing goals for Fannie Mae and Freddie Mac. For 2004, HUD will be aggressive in setting, monitoring and enforcing GSEs' goals for purchasing mortgages made to these families, thus increasing their opportunities for homeownership.

Question 4:
For the first time since the Housing Voucher Program was created, HUD has not requested enough funds to cover all authorized vouchers. A study performed by the Center on Budget and Policy Priorities estimates that at the administration's current funding request, 137,000 vouchers would be lost even though a substantial number of these vouchers are likely to be used in fiscal year 2003 and will require renewal funding in fiscal year 2004. If this statement is true, do you think that the funding request for the Housing Voucher program should be increased to cover the 137,000 vouchers and if not why?

Response:
The Department requested 34,000 incremental vouchers for FY 2003. Congress did not appropriate incremental funding for FY 2003. HUD believes that the renewal funding provided for FY 2003 is adequate to fully fund the vouchers that are currently under lease. In addition, the funds should be adequate to support any additional vouchers that are under lease at the end of FY 2003. The FY 2004 budget proposal for HANF will additionally support approximately 94,000 vouchers more than the FY 2003 funding levels.

Question 5:
In the President's FY 2004 Budget, funding for voucher programs is separated from funding for the project-based Section 8 program and is placed into a new account called Housing Assistance for Needy Families. This action has been defined as the first step in the Administration's plan to convert the voucher program to a state-administered block grant program. Can you please briefly discuss the benefits of a state-administered block grant program over the current system?

Response:
HUD believes that providing assistance through a state-administered block grant system over the current system will:

- Provide for the program flexibility and oversight so that funds are used promptly and effectively to assist needy families;
- Facilitate greater program responsiveness to local markets and needs;
- Provide for administrative decision-making closer to the communities and families affected, by their elected officials;
- Provide for additional program flexibility to address local needs;

- Allow flexibility at the State level for reallocation of funds or other actions that may be necessary so that program funds are expended promptly; and

- Improve government support of self-sufficiency efforts by assisted families, by facilitating greater coordination with the TANF program and other State programs.

Question 6:
In regard to this program, several housing advocates have claimed that block granting the Housing Voucher Program would reduce its capacity to help low-income families and undermine housing choice, what are your thoughts on these statements?

Response:
Block granting the voucher program would provide significant flexibility and would allow housing agencies to meet their local housing needs more effectively. States could quickly adjust their payment standards based on local market factors and reallocate funds to areas of the state where the needs are greater from areas of the state where the needs are less, or where voucher funding is going to be used. The benefits of housing choice and portability would not be affected. Administratively, the program would be easier to manage through significant deregulation and simplification. More details will be revealed in the coming weeks in the proposed HANF legislation. As a result of easing program administration, States would have more resources to assist families in finding housing.

Questions for Secretary Mel Martinez from Congressman William Lacy Clay

Question 1:
Mr. Secretary, the Section 8 program provides rental assistance to 5 million low income persons, including 1.2 million families with children, over ¼ million elderly families and approximately the same number of disabled families. During a time of economic downturn, why are they facing extensive cuts and also dramatic boosts to their rents?

Response:
HUD has added over $900 million to its FY 2004 budget request to ensure assistance is available to low income persons. In addition, HUD believes $50 minimum rent is a reasonable amount to charge for housing. Moreover, over 50% of PHAs are currently charging a minimum rent of $50.

Question 2:
Why is the Section 8 block grant program being taken away from the local administrators?

Response:
HUD believes that providing housing assistance through a State-administered block grant will:

a. Provide for the program flexibility and oversight so that funds are used promptly and effectively to assist needy families;

b. Facilitate greater program responsiveness to local markets and needs;

c. Provide for administrative decision-making closer to the communities and families affected, by their elected officials;

d. Provide for additional program flexibility to address local needs; Allow flexibility at the State level for reallocation of funds or other actions that may be necessary so that program funds are expended promptly; and

e. Improve government support of self-sufficiency efforts by assisted families, by facilitating greater coordination with the TANF program and other State programs.

Question 3:
Mr. Secretary, in my District, the Public Housing Authorities still have no knowledge of their actual budgets. When will they get some economic relief? When will they know what the amounts of funding are?

Response:
The recently passed FY 2003 Omnibus appropriation bill permits HUD to use up to $250 million appropriated to the Operating Fund for payments to PHAs that had fiscal years beginning October 1, 2002, and which did not receive the same level of funding as all other PHAs. The St. Louis Housing Authority is one such PHA that received additional payments totaling 100% of eligibility. In addition, PHAs, with fiscal years starting January 1st and April 1st who submitted their FY 2003 budgets to HUD on time, have received 90% funding.

Question 4:
Mr. Secretary, I have Brownfields all over my district. The eradication and redevelopment of them is necessary as part of the cure for the housing problem that exists there. The cleanup is also necessary for the health of the community as we have kids playing on the vacant lots and groundwater being affected. Has a decision been made that these brownfields are good for the communities and need to be preserved?

Response:
Both the President and Congress have moved aggressively to ensure the cleanup and redevelopment of brownfields. The enactment of the Small Business Liability Relief and Brownfields Revitalization Act last year vested EPA with significant new powers and

resources to assist in brownfields revitalization, including the ability to fund remediation efforts for the first time. Two years before passage of the EPA law, Congress recognized that the most effective means of spurring private sector investment in brownfields redevelopment was through a significant expansion of the federal Environmental Cleanup Cost Deduction. This federal tax incentive is now available to all communities. By contrast only a limited number of the nation's 1100 CDBG Entitlement communities and a handful of smaller communities have authority to access HUD's BEDI program. This is because under existing law, BEDI grants may be used only in conjunction with HUD's Section 108 guaranteed loans, which in turn must be secured through a pledge of an Entitlement community's annual CDBG allocation, or in the case of smaller nonentitlement communities, through a pledge of a state's CDBG allocation).

Question 5:
How do we justify gutting programs that are necessary not only for economic survival, but also for preservation of health?

Response:
The FY 2003 budget for the USEPA provided a record high level of federal funding for the assessment and remediation of brownfields and the President's proposed FY 2004 budget would provide for further increases in funding. Although with the elimination of the BEDI program, HUD would no longer administer a program specifically targeted to brownfields redevelopment, the agency will continue to provide significant resources for local brownfields redevelopment efforts through the continued availability of CDBG funds, which are already widely used to assist in local brownfields redevelopment projects, though not specifically mentioned by name. While the new EPA law does not specifically authorize funding for redevelopment activities, other federal agencies engaged in brownfields redevelopment, including USDA, U.S. EDA and HUD, will continue to provide significant levels of brownfields redevelopment sources through our core programs.

Questions for Secretary Mel Martinez from Congressman Steve Israel

Question 1:
Mr. Secretary, the Administration is requesting $251 million for the Section 811program for people with disabilities for FY 2004. This represents an $8 million reduction from FY 2003 funding. However, according to estimates included in your budget proposal, renewal of all expiring 811 "mainstream" tenant-based rent subsidies will cost $42 million in FY 2004 ($10 million more than in FY 2003). In addition, renewal of expiring 811 project-based subsidies (known as PRACs), are estimated to cost $8 million ($2 million more than in FY 2003). This appears to increase the proposed reduction to the 811 program to at least $18 million if measured in terms of production of new units for people with disabilities. Further, this renewal burden associated with the 811 program is expected to continue growing in the coming years, consuming an ever greater percentage of the program, severely undermining 811's role as a production program.

The Administration's budget contains an unspecified proposal to fold Section 811 into the Samaritan Chronic Homeless Initiative. This appears to be at odds with the targeting requirements for Section 811 that have been established by Congress, i.e. to direct resources to non-elderly people with severe disabilities that need housing related supports to live in the community. While this can include people with disabilities experiencing chronic homelessness, it also includes individuals transitioning from institutional settings (nursing homes, psychiatric hospitals) or adults living with aging parents that can no longer provide care at home.

a. **Does HUD have an estimate of the reduced number of new production units and new vouchers under Section 811 that would result from the Administration's budget?**

Response:
The estimates included in the Departments' Budget reflect that the number of Section 811 units awarded in FY 2004 would be 1,749. The number assumed to be awarded in FY 2003 is 1,804. That is about a 3% decrease in the number of units awarded with the same level of appropriations. However, these estimates do not include additional units that may be awarded using recaptures from prior years or from revised estimates of the amount of new appropriations needed for renewals. We have found that in many cases, higher than expected balances remain on contracts approaching expiration. These additional funds can be used to offset the impact of renewal costs.

b. **Does HUD have a plan to deal with the rising burden associated with renewal of project-based and tenant-based subsidies under the 811 program?**

Response:
Within the amounts that are made available in future years, the Department is committed to maximizing the level of assistance available to eligible families. The Department has underway an aggressive and comprehensive effort to move greater numbers of projects to completion and occupancy as quickly as possible. This effort is also identifying amounts that can be recaptured from projects that cannot make reasonable progress so that these funds can be applied to additional awards. Over the next few years these efforts should increase the pace by which additional units are brought into service. Ultimately, however, additional funding will be required each year to continue the current level of newly constructed units and, at the same time, renew expiring contracts.

c. **What measures might be taken to account for this 811 renewal burden as Congress has done for Shelter Plus Care?**

Response:
Renewal of expiring rental assistance contracts is an integral aspect of the Section 811 housing program as it is for the Shelter Plus Care program. In both cases funding of renewals is priority within the amounts appropriated in the account.

d. **Can you please describe for the Committee how HUD's proposal for integrating 811 into the Samaritan Initiative would impact current targeting requirements for 811?**

Response:
The Department has a pending budget request of $50 million for the Samaritan Housing Program in FY2004, in addition to the $251 million requested for the Sec. 811 program. For FY2004 Sec. 811 grant awards, the Department is proposing a preference for applications that address those disabled fitting the profile of people at risk of homelessness. This effort to prevent homelessness is intended to complement the Samaritan program's focus on addressing the critical needs of those experiencing chronic homelessness. The details on how the new preference will be incorporated into existing Sec. 811 selection criteria will be developed in the next several months based on discussions with all interested parties.

Question 2:
Mr. Secretary, the Administration's FY 2004 budget proposes $36 million to fund approximately 5,500 incremental vouchers for non-elderly people with disabilities tied to designation of public and assisted housing as "elderly only." Congress provided no funding for this purpose in the Omnibus Appropriations bill for FY 2003. At the same time, HUD's FY 2003 appropriation did require the agency to ensure that housing authorities that have previously received non-elderly vouchers continue to target them to this vulnerable population, particularly in cases of turnover.

a. **How will HUD ensure that vouchers are made available to non-elderly individuals with disabilities adversely affected by "elderly only" designation plans that will be submitted to HUD in the remaining months of FY 2003?**

Response:
The FY 2004 budget includes $36 million to support vouchers for non-elderly individuals with disabilities adversely affected by "elderly only" designation plans. For FY 2003, no funds appropriated for this purpose. However, any vouchers that become available through turnover will continue to be used for this purpose. In accordance with existing guidelines, these are the activities that will take place for the turnover vouchers in FY 2003:

a. PHAs that intend to designate a public housing project for elderly only must submit an Allocation Plan for HUD approval.

b. Other housing resources for the non-elderly disabled that would have been housed had it not been for the designation must be identified by the PHA before HUD will approve an Allocation Plan.

c. Such housing resources can include public housing units as well as vouchers.

d. For situations where a private owner designates his project for elderly only, housing agencies can be encouraged to provide a preference for those non-elderly disabled families that would have been housed had it not been for the designation.

b. Does HUD have the authority to redirect vouchers recaptured from housing authorities in the remaining months of FY 2003 to maintain funding for disability vouchers?

Response:
The Department does have the authority to reallocate vouchers and will evaluate the need to do so in the coming months.

c. What measures are being taken by the Office of Public and Indian Housing to provide guidance to housing authorities to ensure ongoing targeting of previously allocated disability vouchers?

Response:
The Department is about to issue a notice that will instruct housing agencies to reissue all vouchers initially awarded for the disabled population to the same target population.

Question 3:
Mr. Secretary, the Administration's budget contains a proposal to convert the Section 8 program to a block grant to the states known as HANF. The budget proposal notes that this would create new flexibility for the states, ease administrative burden at HUD and avoid future recapture of vouchers from housing authorities.

a. Under this proposal, would a state have the ability to establish time limited assistance as under the current TANF program? If so, would a state be required to exempt the elderly and people with disabilities whose age or impairment prevent them from earning their way into self sufficiency?

Response:
HUD does not propose to limit the State's ability to place such limits on assistance. Through their elected officials, it will be up to the discretion of the States to determine such issues. In fact, Delaware currently has time limits of 5 years for public housing and voucher assistance.

b. Would states electing to administer HANF themselves be able to establish income-targeting guidelines higher than those set forth by Congress in 1998?

Response:
This issue will be addressed in the upcoming HANF legislation.

c. Does the Administration's HANF proposal integrate the current allocation of vouchers for non-elderly people with disabilities? If so, how would this be linked to the approval of "elderly only" Allocation Plans by HUD?

Response:
The HANF proposal contains no set-asides. The intent of the program is to allow States maximum flexibility to address state and local housing needs, including the disabled.

d. Does the HANF proposal allocate states an established number of vouchers (based upon current allocations in the Housing Certificate Fund) or does it allocate states a dollar amount? If states are allocated dollars based upon a formula, might there be fewer vouchers in future years if per unit housing costs rose after FY 2005?

Response:
Initially, each state would receive a proportionate share of the total funding based on the total amount of voucher assistance funding provided to each current voucher administrator in the state to enable the States to assist the same number of families. The HANF proposal would provide renewal funding that would be adjusted based on factors such as the number of families served, the cost of housing, performance and housing need. The HANF funding formula will account for changing housing costs each year.

Question for Secretary Mel Martinez from Chairman Bob Ney

Question 1:
Mr. Secretary, I am hearing complaints about the pace and the direction HUD has taken regarding implementation of the reforms enacted by the Congress in the Manufactured Housing Improvement Act of 2000. Could you provide for the record the details of the estimated expenditures for '04 compared to the actual expenditures for '03, in as much detail as possible? This is an important matter to me, and I hope to this Committee. Manufactured housing is a valuable resource of unsubsidized housing for moderate-income families and I want to be sure we are not unnecessarily adding to its problems during this serious downturn in production.

Response:
The estimated expenditures for fiscal year 2004 are 30 percent higher because of the cost of contractual and departmental preparations for one-time administration of the two programs mandated by the 2000 Act: Installation and Dispute Resolution. The Department is required to begin these programs by December 27, 2005. Because of that statutory deadline, the Department will begin preparations for those new responsibilities, and in some instances have them in place by the end of fiscal year 2004. To meet this schedule, we would require resources to be available for administering these two programs in states that have chosen not to administer the program on behalf of the federal program. These additional resources would include: Additional federal staff and travel

for program oversight; Contract administration; a contract for installation inspection; and a contract for dispute resolution service as mandated by the statute.

The Department is still in the preliminary rule-making process, soliciting comments and suggestions from states, industry, consumers, and other parties interested in making suggestions to the Department prior to the publication of the proposed rules.

The Department is working closely with the States to determine which states are likely to carry out these new responsibilities on behalf of the federal manufactured housing program as of the initial implementation date of December 27, 2005.

With these assumptions, the Department requested in the FY2004 budget submitted to Congress in February 2003 an increase of $4.0 million in FY 2004 for a total of $17 million. This total includes $5 million for our statutory responsibility to pay the states based on the fee levels outlined in the regulations; $1.6 million to compensate the states the level they received in calendar year 2000; $3 million for contractual services to meet new statutory responsibilities for beginning the implementation of the Installation and Dispute Resolution programs; approximately $2.5 million for the program's salary and travel costs; and $4.9 million for contractual activities such as the Administering Organization, various monitoring contracts, and assistance to the state agencies through training and other support contracts.

Unfortunately the new federal responsibilities required by the 2000 Act have coincided with a downturn in manufactured housing production.

Questions for Secretary Mel Martinez from Congressman Dennis Moore

In my Congressional District, public housing authorities have used the former Public Housing Drug Elimination Grants in innovative ways that improved dramatically the lives and safety of public housing residents. The PHDEP program allowed PHAs to use small amounts of money to make an enormous difference-in Lawrence and Kansas City, Kansas, PHAs used these funds to pay for additional lighting, efforts to adjust traffic patterns around public housing, tutoring for at-risk kids, off-duty police officers, and the list goes on and on. When you eliminated the PHDEP program, you claimed that PHAs would be able to use their operating subsidies to make up the difference. I understand from my PHAs, however, that many of these activities, including social services and prevention programs for youth such as academic enrichment, drug prevention, and after school activities are not allowable expenses. Could you please comment on the your plans for the following two topics?

Question 1:
At a minimum, the PHA funding formula should be altered to allow for the programs that were previously supported under the PHDEP grant.

Response:
The current formula used to determine operating subsidy eligibility is considered by HUD to be an interim measure that will be replaced by a final rule based on the results of a Congressional-requested study, which was recently completed, on the costs incurred in operating well-run public housing. HUD is aware that provisions in the Quality Housing and Work Responsibility Act of 1998 allow the formula to take into account the need of PHAs to carry out anti-crime and anti-drug activities. The type and level of services to be provided by PHAs, including any anti-drug and anti-crime activities formerly associated with PHDEP, is a matter of local determination and priority.

Currently, HUD provides $10 million to the Attorney General for the Department of Justice's Weed and Seed program that assist in the prevention of violent crimes and drug offenses in public housing. Weed and Seed is a grant, but foremost, it is a strategy to prevent violent crime, drug abuse, and gang activity in designated high-crime neighborhoods across the country. Law enforcement agencies and prosecutors cooperate in "weeding out" violent crime and drug abuse; and "seeding" brings human services to the area, encompassing prevention, intervention, treatment and neighborhood revitalization.

Question 2:
Also, I hope that you will keep the commitment made by HUD's January 15th press release and immediately fund housing authorities at or above 90% of a PHA's operating expenses.

Response:
PHAs, with fiscal years starting January 1st and April 1st who submitted their FY 2003 budgets to HUD on time, have received 90% funding.

For the first time in the program's history, HUD has not requested enough funds to cover all authorized Section 8 vouchers. Estimates suggest that 137,000 previously authorized vouchers would be left unfunded next year, even though a substantial number of these vouchers are likely to be in use in fiscal year 2003 and to require renewal funding in fiscal year 2004.

Question 3:
What are the prospects for additional section 8 vouchers to alleviate the waiting lists in my congressional district and around the country?

Response:
The Department requested 34,000 incremental vouchers for FY 2003. However, Congress did not appropriate incremental funding for FY 2003. HUD believes that the renewal funding provided for FY 2003 is adequate to fully fund the vouchers that are currently under lease. In addition, the funds should be adequate to support any additional vouchers that are under lease at the end of FY 2003. The 2004 budget proposal for HANF will additionally support approximately 94,000 vouchers more than the FY 2003 funding levels.

Question 4:
The HOPE VI program was created to identify and demolish severely distressed public housing units. In my district, these funds were used to demolish Juniper Gardens in Kansas City, Kansas, but we are desperately in need of funds to rebuild that housing and scatter it throughout the city. I believe that these funds are critical, and I am skeptical of proposals that would draw again from the already overburdened Operating and Capital Funds of PHAs. I understand that many in Congress want to review and reform the HOPE VI program, but I want you to assure me that funds will be provided in the near future to rebuild Juniper Gardens and address other severely distressed public housing projects.

Response:
The Department's budget proposal does not include a request for HOPE VI funds in FY 2004. However, there are funds in FY 2003. The Housing Authority should carefully review the NOFA criteria when it is published and consider applying for a HOPE VI Revitalization grant again. If the HA is unsuccessful in FY 2003, it should investigate other possible ways to replace the units.

Question 5:
In Kansas, tax credits have been an especially critical component of financing for affordable housing, making available approximately $4.7 million per year. In fact, tax credits are the #1 source of affordable housing financing in my state and congressional district, and have financed Chelsea Plaza, Meadowlark Townhomes and Lansing Heights, all in the Kansas City, Kansas metro area. Additionally, Kansas City is in the process of developing the area near its new NASCAR track and hopes to use tax credits to encourage investment in affordable housing for the new workers moving to that booming area.

I am very concerned that the administration's dividend tax proposal would discourage investment in public housing. Should the President's dividend tax proposal be approved, how do you think we should replace this valuable financing vehicle?

Response:
The President wants to stimulate the economy by removing barriers to business investment. Eliminating the tax dividend and earnings for common stock will help achieve this goal by making stocks that pay dividends a more attractive investment. All Americans will benefit because businesses will have more capital to innovate and create jobs. Although critics claim that this will take investors away from the bond and tax credit market, analysts at the US Treasury do not agree.

The President, Secretary Snow and Secretary Martinez do not believe we need to replace or enhance these valuable financing vehicles. In fact, the amount of the LIHTC will increase by 40% in the coming years. Furthermore, because both the President and

Secretary Martinez believe affordable housing is a priority, HUD HOME funds have been increased in the 2004 budget by 5% to $2.2 billion.